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# ***JPRS Report***

## **China**

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# China

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## CONTENTS

29 June 1990

### INTERNATIONAL

#### GENERAL

Competition for National Strength in 21st Century <i>[GUOJI WENTI YANJIU 13 Apr]</i> .....	1
Third World Reacts to East European Changes <i>[SHIJIE ZHISHI No 10]</i> .....	2

#### UNITED STATES

BAN YUE TAN: U.S. Hypocritical on Human Rights <i>[BAN YUE TAN No 7]</i> .....	4
--	---

#### NEAR EAST/SOUTH ASIA

Article Criticizes Shamir Rejection of Peace Offers <i>[XINHUA]</i> .....	6
---	---

#### EAST EUROPE

First Bomb Explosion in Prague Since Changes Last Year <i>[XINHUA]</i> .....	7
--	---

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Sluggish Sales, Measures Analyzed <i>[JINGJI GUANLI No 1]</i> .....	8
Interrelationship of Inflation, Deficit, Devaluation <i>[CAIMAO JINGJI No 2]</i> .....	10
Thoughts on Current Economic Situation, Recommendations <i>[CAIMAO JINGJI No 2]</i> .....	14
Macroeconomic 'Mixed Model' Viewed <i>[JINGJI YANJIU No 2]</i> .....	18
Article on Urban-Rural Economic Relations <i>[JINGJI YANJIU No 3]</i> .....	26
Medium-, Long-term Economic Growth Viewed <i>[JINGJI YANJIU No 2]</i> .....	30
Li Yining Comments on Planning, Market <i>[WEN WEI PO 1 Apr]</i> .....	38
Li Yining Comments on Rectification, Proposes Reforms <i>[CHING CHI TAO PAO No 13]</i> .....	40
Reform, Management of State-Owned Assets <i>[JINGJI GUANLI No 4]</i> .....	43
Obstacles to Economic Readjustment <i>[JINGJI GUANLI No 3]</i> .....	46
Respect for Law of Value Discussed <i>[JINGJI RIBAO 2 May]</i> .....	49
Statistics Bureau Reports Inflation Lowest in 5 Years <i>[XINHUA]</i> .....	49

#### PROVINCIAL

Beijing Economic Development Report <i>[BEIJING RIBAO 19 Mar]</i> .....	50
Guangdong Officials Disagree Over Economic Development Pace <i>[YANGCHENG WANBAO 16 May]</i> .....	59
Worries Persist Despite Falling Prices <i>[NANFANG RIBAO 25 May]</i> .....	59
Hebei Clears Up Default of Payments <i>[HEBEI RIBAO 28 May]</i> .....	60
Heilongjiang Enterprises Suffer More Losses <i>[Harbin Radio]</i> .....	60
Shanghai Project Separating Profits, Taxes Pays Off <i>[TIGAI XINXI No 4]</i> .....	60
Yunnan 1989 Economic, Social Statistics <i>[YUNNAN RIBAO 19 Apr]</i> .....	61

#### FINANCE, BANKING

External Circulation of Funds Essential to Growth <i>[CAIJING YANJIU No 2]</i> .....	67
--	----

## INDUSTRY

Optimal Industrial Growth Rate Between 10, 12 Percent	<i>[XINJIANG RIBAO 6 Apr]</i>	70
Decline in Xinjiang Industrial Output Difficult To Reverse	<i>[XINJIANG RIBAO 18 Apr]</i>	71

## SMALL-SCALE ENTERPRISES

Township Enterprise Functions, Structure, Production Analyzed	<i>[JINGJI RIBAO 17 Apr]</i>	72
---	------------------------------	----

## FOREIGN TRADE, INVESTMENT

Selling Land Use Rights to Foreign Businessmen	<i>[NANKAI JINGJI YANJIU No 1]</i>	74
Impact of Renminbi Devaluation on Foreign Trade	<i>[GUOJI MAOYI WENTI No 3]</i>	78
Update on Shanghai's Promotion of Export Agent System	<i>[GUOJI SHANGBAO 12 Apr]</i>	79
Strategy for Adjustment of Foreign Trade	<i>[GUOJI SHANGBAO 28 Apr]</i>	82
Guangdong To Designate Special Zone for Taiwan Investment	<i>[XINHUA]</i>	84

## AGRICULTURE

Gansu Preferential Policy for Sugar Crops	<i>[GANSU RIBAO 26 Apr]</i>	84
Yunnan Pork Sales Decline	<i>[YUNNAN RIBAO 27 Apr]</i>	85
Shanxi's Modified Oil Purchase, Sale Policy Explained	<i>[SHANXI RIBAO 30 Apr]</i>	86
Yunnan Grain Area	<i>[YUNNAN RIBAO 16 May]</i>	86
Yunnan Sugar Output	<i>[YUNNAN RIBAO 29 May]</i>	86
Hunan Cultivated Area	<i>[HUNAN RIBAO 22 May]</i>	86
Hubei Cotton Area	<i>[HUBEI RIBAO 5 Jun]</i>	86
Sichuan Rape Area	<i>[ZHONGGUO TONGJI XINXIBAO 11 Jun]</i>	86
May Imports of Cereals, Food, Oils	<i>[CEI Database]</i>	86
National Watermelon Area	<i>[JINGJI RIBAO 11 Jun]</i>	87

## SOCIAL

Review of 10 Years of Development in Sociology	<i>[ZHONGGUO SHEHUI KEXUE No 1]</i>	88
Rise in University Enrollments Forecast	<i>[CHINA DAILY 11 Jun]</i>	96

## MILITARY, PUBLIC SECURITY

Li Jiulong at Labor-Day Film Reception	<i>[DAZHONG RIBAO 30 Apr]</i>	97
--	-------------------------------	----

## REGIONAL

### EAST REGION

Jiangsu Commemorates Mao's Yanan Talks	<i>[XINHUA RIBAO 23 May]</i>	98
Shandong Document on Theoretical Training of Cadres	<i>[DAZHONG RIBAO 6 May]</i>	99
Establishment of Shandong Socialism Institute Planned	<i>[Jinan Radio]</i>	100
Zhejiang Cracks Down on Illegal Housing	<i>[ZHEJIANG RIBAO 2 May]</i>	100
Zhejiang Marks Anniversary of Mao's Talk	<i>[ZHEJIANG RIBAO 23 May]</i>	101

### CENTRAL-SOUTH REGION

Shantou Cracks Down on Armed Criminals	<i>[Guangzhou Radio]</i>	102
Guangdong Party Official Dismissed Over Housing Abuse	<i>[Guangzhou Radio]</i>	103

### SOUTHWEST REGION

Drug Trafficking 'Running Rampant' in Yunnan	<i>[Hong Kong WEN WEI PO 8 Jun]</i>	103
--	-------------------------------------	-----

### NORTH REGION

Inner Mongolia Meeting on Current Education Ends	<i>[Hohhot Radio]</i>	104
--	-----------------------	-----

## NORTHEAST REGION

Harbin Institute Pleased With Returned Student Numbers	<i>[HEILONGJIANG RIBAO 23 Apr]</i>	105
Liaoning Forum of Democratic Parties Held	<i>[Shenyang Radio]</i>	105
Heilongjiang Issues Guidelines on Personnel Affairs	<i>[HEILONGJIANG RIBAO 13 May]</i>	106
Heilongjiang Law Office To Deal With Foreigners	<i>[HEILONGJIANG RIBAO 17 May]</i>	106
Heilongjiang Discusses Pre-election Tasks	<i>[Harbin Radio]</i>	106
Liaoning's Plans To Attack Crime	<i>[Shenyang Radio]</i>	107
Heilongjiang Reports Progress in Procuratorial Work	<i>[Harbin Radio]</i>	107
Qingyuan Manchu Autonomous County Established	<i>[Shenyang Radio]</i>	108
Beizhen Manchu Autonomous County Set Up in Liaoning	<i>[XINHUAJ]</i>	108

## NORTHWEST REGION

Gansu Handles Law, Discipline-Violation Cases	<i>[Lanzhou Radio]</i>	108
Gansu Governor Inspects Work of Banning Drugs	<i>[Lanzhou Radio]</i>	109

## TAIWAN

Capital Outflow Said Serious	<i>[TIEN HSIA No 106]</i>	110
Police Arrest 48 From Mainland	<i>[CNA]</i>	111

## HONG KONG, MACAO

British 'Right of Abode' Package Denounced	<i>[TA KUNG PAO 9 Apr]</i>	112
Factionalism Within Local Democratic Groups	<i>[MING PAO 9 Apr]</i>	112
Sino-British Dispute Over 'Right of Abode'	<i>[MING PAO 25 Apr]</i>	113
Formation of 'United Democrat Alliance'	<i>[MING PAO 26 Apr]</i>	115
Firm Increases Investment on Mainland	<i>[XINHUAJ]</i>	117

## GENERAL

### Competition for National Strength in 21st Century

90CM0156A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese 13 Apr 90  
pp 52-58

[Article by Li Tianran (2621 1131 3544) entitled: "On the Question of Comprehensive National Strength"]

[Excerpts] Comprehensive national strength is a general designation of the overall strength of a country based on a wide range of characteristics of that country: its environment, population, natural resources, economy, technology, cultural development, military, and its relations with other countries. The level of development of comprehensive national strength is a measure of a country or society's strength or weakness. Research devoted to this question is attracting more widespread attention from foreign and domestic academic circles, and has already become an important theoretical base for those researching the development of and changes in present international relations. [passage omitted]

### Measuring Countries' Comprehensive National Strengths as the 21st Century Approaches

In recent years, unprecedented changes have occurred in the global situation. A worldwide trend has emerged in which tension and antagonism have given way to relaxation and dialogue. East-West relations have begun moving towards a new historical period. The primary manifestation of this is that neither of the two superpowers, the United States and the Soviet Union, has been able to prevail over the other during 40 years of postwar confrontation. Both superpowers now realize that the arms race is not the only effective method for maintaining peace or a "balance of power"; relying solely on military methods for expanding one's influence and seeking political benefit is not practical; a country's one-sided pursuit of expansion through military power often leads to economic dislocation, and affects a country's pace of and ability to sustain economic growth. If this continues, a country's comprehensive national strength would weaken, and strategic strength would become weakness. In addition to the two large superpowers, in some other medium-sized countries there is a growing awareness that what makes a country big and powerful is developing an comprehensive national strength based on economics and technology. For this reason, tests of comprehensive national strength between countries will be even more prominent in future international relations. The coming decade is a critical one. Many countries, particularly large ones, are vying with each other, competing to see who can "sharpen their weapons and ready their horses" faster, and are vigorously revising their traditional development strategies in preparation for seizing the strategic advantage in the next century. The curtain has already risen on the great competition between countries for comprehensive national strength in the 21st century.

In order to meet the challenge of the 21st century, a new developmental trend (or even a "headlong dash") has emerged in each country's international relations. The trend focuses on the economy and technology, and stimulates both mutual competition and interdependence as well as cooperation. This is made clear by the fact that there is a growing awareness that in disputes over comprehensive national strength, a country must deal not only with military threats, but also with economic and technological challenges, to the extent that sometimes the importance of economic security far exceeds that of military security.

In March of 1983, the Reagan administration announced to the world the "Strategic Defense Initiative" (SDI, commonly known as the "Star Wars Plan") as the key to containing the Soviet Union. This initiative contains offensive and defensive aspects, and is a multi-layered, anti-ballistic missile strategic defense system based on laser, kinetic energy, and particle beam weapons systems. At the time of the announcement the U.S. envisaged that a fully-implemented SDI would cost 800 billion to 1 trillion dollars over a 20 to 30 year period.<sup>1</sup> The cost of the research stage alone is 26 billion dollars, a tremendous consumption of capital. Spurred by the United States, Great Britain, West Germany (FRG), Japan, Italy, and Israel all participated in research for the U.S. "Star Wars" program. At first glance, the "Star Wars" program seemed to be a purely military plan. However, after the program had been underway for a short period of time, it became evident that it could lead to major breakthroughs in a number of complex technologies, in the same manner as the Manhattan Project and the Apollo Moon Project. This could have a broad impact on production technology and on the U.S. economy overall, and widen the high technology gap between the United States and Western Europe and Japan; it could also achieve the goal of vigorously developing the U.S. economy, enhancing comprehensive national strength, and allow the U.S. to maintain its top position among world powers.

In a speech given on 16 March 1989 in which he discussed "U.S. Strategy in the 21st Century," U.S. President Bush emphasized that the United States must formulate a long-term agenda for dealing with the challenges it will face domestically and abroad in the 21st century. Not only will these challenges not be solely military in nature, but they will principally challenge the economic, technological, investment, environmental protection, and educational aspects of comprehensive national strength. For this reason, it is necessary to use a long-term view in dealing with changes in the international situation and to pay attention to changes emerging on the international stage in order to define U.S. foreign policy and practice. The "U.S. Strategy for the 21st Century" discussed by Bush is a basic strategy for ensuring that the U.S. maintains its leading position in tests of comprehensive national strength during the 90's and into the 21st century.

At a cabinet meeting on 17 April 1985, French President Francois Mitterrand, talking about the effects of and serious challenges facing the U.S. "Star Wars Plan," proposed the "defensive," military/civilian "Eureka Program" for the joint vigorous development of Europe. The major proposals contained in this program are that the Western European countries will launch cooperative research and technological development projects in the six areas of high-speed microelectronics, photoelectronics, fifth-generation computers, high-power lasers and particle beams, new materials and artificial intelligence. By the convening of the Sixth Minister's Conference on "Eureka" in Copenhagen on 15 June 1988, 33 countries and 1600 companies were participating, and total investment had reached more than 10.3 billion dollars.

Under the influence of the "Eureka Program," a whole series of high technology development programs have emerged in Western Europe, such as the "Machine Intelligence Program" aimed at maintaining competitive ability in the fields of computers and information technology, the "BRITE Plan" [Basic Research in Industrial Technologies for Europe] aimed at research and development of space technology and advanced materials, the "Competition Plan" aimed at development of a European long-distance, high-speed data communications network, and the "Comet Program" for promoting academic exchanges and strengthening relations between universities. The Western European countries are attempting to use these transnational cooperative efforts to compete with the United States and Japan in high technology fields and to spur overall of production, the economy, and other areas. Thus these are long-term strategic plans to enable Western Europe to occupy a more advantageous position in the competition for comprehensive national strength at the turn of the century.

Japan, in order to match the U.S. "Star Wars Plan" and the West European "Eureka Program," has chosen high-technology as its own breakthrough area. Beginning in 1980, Japan decided its development strategy would be a "state founded on technology," and soon afterwards successively proposed the "Program for Developing Basic Technology in the Field of Life Sciences" and "A Basic Policy for Promoting Science and Technology." At the same time, the Ministry of International Trade and Industry welcomes the arrival of new and developing industries of the 90's and has established the "Next Generation Industrial Base Technology Research and Development System." With an eye toward the future, it has defined ten or so basic research items, and organized industrial, academic, and scientific researchers to work together on them. At the same time, Japan has also actively participated in research for the U.S. Strategic Defense Initiative; it has used the development of science and technology, particularly high technology, as a method for strengthening its comprehensive national strength, as it strives to be internationally recognized as a powerful country on a par with the United States in the next century.

Since the ascension of Mikhail Gorbachev, the Soviet Union has continuously revised its traditional domestic and foreign policies, altered its past methods of purely military confrontation with the United States, adopted "outflanking" tactics, replaced the "offensive strategy" of the past with a "rational sufficiency" viewpoint, and placed the emphasis on a "strategic balance." Under the premise that the basic, mutually adversarial situation between the two superpowers in terms of military affairs has not yet changed, the Soviet Union has launched a strong peace offensive, and turned its strategic goals towards improving its comprehensive national strength. At the 27th Soviet Communist Party Congress convened on 6 February 1986, the Party decided on an "accelerated development strategy," and resolved to shift a large amount of military scientific research investment and military industry to civilian use. Its goal is to accelerate the pace of economic and technological development, so that by the 21st century the Soviet Union will possess sufficient strength to maintain strategic superiority or equality with the United States, and consolidate its position as a major power.

Clearly, a large number of countries are depending on their own original base, aiming at the 21st century, and are dashing up to the starting line one after another in the contest for comprehensive national strength. Yet in fact gaining an advantage in this unprecedented contest will ultimately be a very difficult matter.

We have already entered the 1990's, a decade "filled with both risks and challenges, as well as hope and opportunity."<sup>2</sup> Although China is a large country with a vast territory, it is a developing country with limited resources and low-level productive forces. In comparing its comprehensive national strength with that of other countries, although China has some advantages, there is quite a large disparity in its actual comprehensive strength. A tremendous amount of hard work is required if this unfavorable situation is to be changed.

#### Footnotes

1. See *Star Wars: An Analysis of the U.S.-Soviet Scramble for Space*, p 24
2. See RENMIN RIBAO (PEOPLE'S DAILY), 23 December 1989, p 7.

#### Third World Reacts to East European Changes

90P30043A Beijing SHIJIE ZHISHI /WORLD AFFAIRS/ in Chinese No 10, 16 May 90 pp 18-19

[Article by Yu Chuan: "Perplexity, Worry, Alarm—The Third World's Response to the Drastic Changes in Eastern Europe"]

[TEXT] The swift changes in the internal situations of several Eastern European nations, and the swift readjustments in their foreign policies have caught the widespread attention of Third World countries. The common reaction of many countries was shock at the suddenness,

perplexity over the causes and uneasiness over the impact of these changes. Many Third World leaders have issued public statements revealing their own viewpoints. The Organization of African Unity and the Gulf States Cooperation Council have even established special committees to study the effects of the changes occurring in Eastern Europe and an appropriate counter-strategy.

**"This Is Not Our Model."**

For the past several decades the nations of Africa have struggled to find their individual roads of development. They are in common agreement that the conditions in Africa differ from those in Eastern Europe, and the changes in Eastern Europe cannot shake their resolve to go their own way. When the trend toward "multiparty systems" began to appear in Eastern Europe, President Mugabe of Zimbabwe resolved to continue with the one-party system, and completed the amalgamation of the ruling and opposition parties. At the convention of the new party's representatives he emphasized that in building socialism in Zimbabwe, they "must consider our own history, culture, social experience and other realities." The General Secretary of the ruling Tanzanian Revolutionary Party Kawawa said on 21 December 1989, "The social circumstances and history of the East European changes is not the same as Tanzania's." Tanzania has built its socialism on the traditional African model initiated in the "Arusha Declaration." "Socialism has been acknowledged and pursued by a portion of humanity: it will not die off that easily." Central secretary Mwiru, who is in charge of party ideological work called upon the Tanzanian people: "do not waver just because of changes in the political situation in Eastern Europe," because "the factors that led to the changes in Eastern Europe do not exist in Tanzania."

President Moi of Kenya and President Bongo of Gabon both released statements saying that they oppose the imitation of Eastern European nations in instituting multi-party systems by African nations, because they believe "it is still too early for Africans to consider instituting multi-party systems; the most pressing matter of the moment for Africa is to preserve national unity." The JORNAL DE ANGOLA newspaper published an article which stated "Of the 54 African nations, 42 have one-party governmental systems," and "the one-party system is in keeping with the concrete conditions in the great majority of African nations." Some people are strongly propagandizing and exerting great pressure to get Africa to institute multi-party systems, but "the time when they can simply boss Africans around and force them to adopt a style of action which does not conform to their actual situations is long past;" "multi-party systems would lead us into chaos and engulf us in calamities."

Some of the Middle Eastern and Gulf States are also suspicious of the changes in Eastern Europe. The Omani minister of information stated publicly that "the changes in Eastern Europe are not a model for the Gulf States."

The ruling party in Syria is of the opinion that it cannot voluntarily give up its governing position as the parties in Eastern Europe have.

**Fear Concerning The Diversion Of Capital And Aid**

The countries of the Third World have another cause for worry, and that is the economic impact the changes in the situations in the Soviet Union and Eastern Europe will have on them.

At present, Western capital and aid is pouring into Eastern Europe. In fact, some capital formerly earmarked as aid to Third World countries is also being diverted. Many developing countries feel that Western nations are paying too much attention to Eastern Europe and "neglecting" the Third World, thus putting them in the position of receiving less or no aid while they are in the process of improving their economic situation. The African nations believe this will lead to instability on the African continent. A foreign report stated, "Leaders of African nations are noticing with great unease that some donor nations are pulling money out of their pockets to aid Eastern Europe." They greatly fear that after "several dozen African nations have carried out painful austerity plans and are stepping up their quests for capital," the Soviet Union and Eastern Europe are sucking it away. The reason that the representatives from 69 Third World countries broke off consultations with the European Council on 30 November 1989 over renewal of the Lome Convention was precisely because they were very dissatisfied with the European Council's emphasis on aid to Eastern Europe, at the expense of the Third World. Senegal Minister of Foreign Trade [sic] Sy Sedina, primary representative of the African, Caribbean, and Pacific Group (ACP) at the talks, complained that the European Community [EC] nations' "aid to Poland and Hungary is ten times more per capita than that given to ACP nations." Another principle representative, Qiaoshuya Yiloha [phonetic] said that the EC's "investments will flow continuously into Eastern Europe and in 1992 will flow toward poorer member nations of the EC, and our place in line for aid will be relegated to the fourth or fifth position or even further toward the rear." He also pointed out that the capital with which Italy's Fiat Corporation built a plant in the Soviet Union was taken from monies intended for Africa. It is just as Singapore Prime Minister Lee Kuan Yew stated: "The entire developing world is truly deeply concerned, for there is only so much aid resources and no more."

According to reports, West Germany has informed Bolivia that as of March 1990 it will stop financial support to 30 mineral resource exploration projects because it will be using the money to aid East Germany. The United States government has decided to give 25 million dollars earmarked for anti-narcotics efforts in Jamaica to Poland instead. It is reported that the United States has also asked Pakistan to be prepared for cuts in American aid. It is anticipated that such situations will multiply in the future.

The heavily debt-laden Latin American countries have already felt the impact of the eastward shift of capital by Western nations and international monetary organizations; it is becoming increasingly difficult for them to negotiate debt reduction concessions with creditor nations in negotiations, and obtaining new loans is even more difficult. Latin American countries are also afraid that Western products will be shifted to East European markets and impact upon their imports; they fear that the Soviet Union and Eastern Europe will use their advantages of their proximity to Western Europe and good transportation links to take away West Europe as a market for Latin American exports. Imports and exports between Latin American countries and Western nations will eventually be affected. Secretary-General of the Organization of African Unity (OAU) Salim and leaders of member-nations of the Central African Community fear that if the West subsidizes Eastern Europe, this will exacerbate international trade competition, and developing nations will lose their traditional trading partners and financial supporters.

#### **Guarding Against "Sacrificing The Other's Interests"**

The changes in foreign policy of the Soviet Union and East European countries directly affect some regional problems and the political situation in some countries. Popular opinion has it that the Soviet's change in policy toward Nicaragua caused the Sandinistas to lose the general election and that the reduction of the Soviet presence in Latin America has allowed the United States to more easily get its way in that part of the world, to the point that it brazenly invaded Panama and increased its political, financial, and military pressure on Cuba.

The Soviet Union and the Eastern European countries have cut off some of their foreign aid projects, withdrawn their experts and military personnel from developing countries, and reduced military aid and weapons sales, thus creating hardship in some countries. According to observers' analyses, the hardest hit were some of the Middle East nations. Soviet and East European cuts in political, economic and military aid to Middle East nations have weakened the PLO's [Palestine Liberation Organization] and Syria's ability to resist the United States and Israel, while at the same time augmenting Israel's arrogance. According to reports, a self-satisfied Israeli military officer recently said, "The Soviet Union has asked Syria to change its strategic objectives, and avoid fighting with Israel; Damascus will no longer be able to receive unlimited political and military support from the Soviet Union." "The Soviet Union has already reduced the amount of military hardware it is selling Syria and other Arab nations." This proves that "the Soviet Union has reduced its military intervention in the Middle East." "If the Arab nations start another war with Israel, the Soviets will not fly in material support like they did in 1973." Because the Soviet Union and Eastern Europe have less interest in promoting the Middle East peace process, there is widespread fear of losing among the PLO and Arab nations. Recently, the immigration of large numbers of Jews from

the Soviet Union to Israel and their occupation of Arab territory incited a tremendous reaction. Public opinion has it that by doing this the Soviet Union is helping Israel carry out its "Greater Israel Plan" and permanently occupy Arab territory. Some say that the Soviets and Eastern Europe have sacrificed other peoples' interests.

In the face of serious challenges brought about by the changes in the Soviet Union and Eastern Europe, Third World countries are already actively adjusting their domestic and foreign policies. Some of the countries are now seeking aid and assistance from nations other than the Soviet Union and Eastern Europe, some are readjusting their internal economic policies to become self-sufficient, and some are strengthening their security defenses in order to stabilize their political situations. Regional organizations are emphasizing greater unity and mutual assistance, and joint economic policy planning. Other regional organizations are increasing cooperation in mutual defense and security. In a word, the problems and changes in international relations brought about by the changes in the Soviet Union and Eastern Europe have already caught the attention of Third World nations. They are in the process of choosing responses appropriate for their own individual situations.

## **UNITED STATES**

#### **BAN YUE TAN: U.S. Hypocritical on Human Rights**

*90P30040A Beijing BAN YUE TAN [SEMINMONTHLY TALKS] in Chinese No 7, 10 Apr 90 pp 11-13*

[Article by BAN YUE TAN's Reference Office: "What Is the Human Rights Problem?"]

[Text] The United States talks a lot about the human rights problem. What is the human rights problem? How did it originate? Why does the United States consider itself "the world's policeman of human rights?" This article provides a synopsis of relevant articles from the press.

#### **The Origin of Human Rights and the Hypocrisy of the Human Rights of the Capitalist Class**

The human rights that people usually speak of is a political concept developed by the Western capitalist class during its struggle against feudalism. The capitalist class, developed in feudal society, demanded individual freedom and equality in order to throw off the shackles of the Church theocracy and the various specially privileged feudal classes in order to freely develop capital and exploit labor. As early as the European Renaissance, humanists proposed viewing man as the center, with all things being to his benefit. They propounded human rights and freedom of the individual in order to counter the oppression and exclusion of the feudal classes and the Church. The European capitalist Enlightenment thinkers of the 17th and 18th centuries went a step

further and systematically proposed the theory of "natural human rights," stressing that "human beings are by birth free, equal, and independent" and that no person "can encroach upon another person's life, health, freedom, or property." The theory of "natural human rights" reflects the interests and demands of the newly arisen capitalist class; it was the powerful ideological weapon that they used during their anti-feudal revolution and the fundamental content of their political program.

The human rights proposed by the capitalist class was without question a historic advance against the special privileges of feudalism. But it was also a narrow sort of human rights and could not but embody enormous hypocrisy as far as the proletariat and the broad masses of laborers are concerned. This was because the human rights proposed by the capitalist class, although seemingly universal, was fundamentally and substantively designed to protect only the interests of the capitalists. Just as Marx and Engels pointed out, "proclaimed as one of the most fundamental of human rights was the ownership rights of the capitalist class." It was precisely on their right of ownership of capital that the capitalist class justified its exploitation of the proletariat and its claim to a portion of the fruits of proletarian labor without compensation. Under this same human rights slogan, the proletariat had no protection, nor could it obtain any by which to prevent the surplus value of their output from being embezzled by others. Thus, Marx also said, "The equal exploitation of labor is the main human right of capital, and human rights itself is a special privilege" which has taken the place of the special privileges of the various feudal classes and the "money privileges" of hereditary powers.<sup>1</sup>

In socialist China, with the ending of class oppression and exploitation, the laboring people who had been treated in the old society as if they were oxen or horses became the new masters of society. History has already proved that only under the socialist system will the vast majority of people enjoy human rights.

China's constitution and laws stipulate that citizens enjoy broad rights—something that capitalist countries cannot match.<sup>2</sup>

#### **The Truth About the Americans' Human Rights**

Since the United States makes loud noises everywhere on human rights, it should be the most observant of human rights. In reality it is exactly the opposite. The McCarthy Bill of the 1950s that did widespread harm to the American people is still fresh in the memory of the average person. More than 100 years after the Emancipation Proclamation, prejudice against blacks and other people of color is still a serious problem. The instances in which the United States government deployed troops and policemen to ruthlessly suppress laborers who gave speeches, assembled, formed organizations, demonstrated, and exercised other free rights that endangered

monopoly capitalist control are too numerous to mention. In foreign affairs, the United States has not only consistently supported South Africa's apartheid system, but has also flagrantly invaded Korea, Vietnam, Grenada, and numerous other sovereign states. It has never ceased its wanton interference in the internal affairs of other countries nor its plots to overthrow them. This is the truth about the United States "human rights guardian."<sup>3</sup>

Recently, the United States invaded Panama. It admitted that more than 700 Panamanians were killed and that even new-born infants were taken to prisoner-of-war camps. What kind of human rights is this! However in the entire capitalist world, no major country applied sanctions against the United States. On the African continent, 50,000 people die of starvation every day. This is the result of imperialist plunder. What kind of human rights is this! Our socialist system has solved the problem of large numbers of people starving to death every day. Isn't this guaranteeing the most important human right of right to life? Yet, they encourage the overthrow of our system.<sup>4</sup>

#### **"Human Rights" Has Been Used As A Pretext For Interfering in the Internal Affairs of Other Countries**

No country can use human rights as an excuse to interfere in the internal affairs of another country, nor can it turn domestic aspects of human rights into an international issue by which to interfere. In order to manufacture a theoretical basis by which to interfere in the internal affairs of other countries, some Western scholars have come up with the absurd theory of "humanistic interference", using human rights as an excuse. They even say that this kind of interference is "sanctioned by law." This idea has no basis in international law. As long as it involves a country's internal affairs, interference, regardless of the excuse, is a violation of international law. Even if the interference were to be carried out under the banner of "human rights" or "humanistic interference," it would not be any less illegal.

On the other hand, no country can use "internal affairs" as an excuse to shirk its international duty of respecting fundamental human rights. The South African government's policy of apartheid and Israel's long-term repression and expulsion of Palestinians are international crimes that violate fundamental human rights and cannot be explained away with the excuse of "internal affairs."

Looking at international experience, the United States and a small number of other Western countries on the one hand use "human rights" as an excuse to unscrupulously interfere in the internal affairs of other countries, but on the other hand, do not allow other countries to intervene when they commit serious violations of fundamental human rights, claiming that they are "internal affairs." For example, they use every means possible to make excuses for Israel and apartheid supporters in

South Africa, thereby carrying out a "double standard" both in terms of interference in other's affairs and in human rights. This explains how the United States and a few other countries interfere in the internal affairs of other countries in the name of protecting "human rights." This a typical example of power politics.<sup>5</sup>

The drunkard's intention is not in the wine. [A Chinese proverb which means that there are ulterior motives.] The (United States) waves the "human rights" banner as a pretext and utilizes the present great international climate to force China to give in. Recent changes in the international situation has caused the United States to feel rather smug because it thinks its "peaceful evolution" strategy has succeeded. However on the opposite shore of the Pacific Ocean in the vast land of China, the red socialist flag is still flying high, which disappoints and angers those "peaceful evolution" strategists. Thus in their "Human Rights Report," they have brought together and unleashed all their enmity toward China. They believe that through lies and rumors scraped together such as in the "Human Rights Report," they can externally pressure China and force us to abandon the Four Basic Principles and the socialist road. This is the true motive behind the attack on China in the U.S. State Department's "Human Rights Report."<sup>6</sup>

#### Footnotes:

1. See Chen Hanchu [7115 3352 2806]: "What is Human Rights" in BAIKE ZHISHI [ENCYCLOPEDIC KNOWLEDGE], No 5, 1979.
2. See Jiang Bin [1203 2430]: "What is Socialist Human Rights?" in JIEFANGJUN BAO 11 Aug 89
3. See Shi Yun [0670 0061]: "Who is the Real Guardian of Human Rights?" in RENMIN RIBAO 7 Jul 89.
4. See Yu Xinyan [0151 1800 6056]: "Conversation With Political Instructors of Youth" in XUANCHUAN SHOUCE [PROPAGANDA HANDBOOK] No 3, 1990.
5. See Fu Xuezhe [1381 1331 0772]: "The Principle of Non-Interference and the Human Rights Problem" in RENMIN RIBAO 8 Dec 89.
- (6) See commentator's article: "Hegemonism's New Performance" in RENMIN RIBAO 25 Feb 90.

#### NEAR EAST/SOUTH ASIA

##### Article Criticizes Shamir Rejection of Peace Offers

OW1206213990 Beijing XINHUA in English  
0022 GMT 12 Jun 90

[By Li Zhurun]

[Text] Cairo, June 11 (XINHUA)—When a new cabinet is formed in a certain country, people who have followed the development of events usually avoid too quick a conclusion on the course of its action.

No need for Israel's new right wing cabinet headed by Likud chief Yitzhak Shamir, known as "Mr. No" for his readiness to reject whatever peace offer—its guidelines show clearly enough the resolve of "Mr. No" and other hardliners to continue to say no to peace.

The guidelines of the cabinet, which won parliament approval today, retain Israel's stance of opposing the establishment of an independent Palestinian state and refusing to talk with the PLO which is recognized as the sole legitimate representative of the 5 million Palestinians the world over.

The guidelines promise to "uproot" the Palestinian uprising in the West Bank and Gaza Strip under Israeli occupation since 1967, and vow to "strengthen, expand and develop" settlements for Jewish immigrants mainly from the Soviet Union.

No wonder the PLO condemned the cabinet. "This is a war cabinet, the worst in Israel's history, and represents the summit of fanaticism, intransigence and extremism," said Salah Khalaf, or Abu Iyad, the number two man in PLO's mainstream faction Fatah.

Abu Iyad expected "fresh massacres against the Palestinian people" in the occupied territories. By Western estimates, nearly 700 Palestinian protesters have been killed during the Palestinian uprising which is now in its 31st month.

In the West Bank town of Nablus, Palestinian political scientist Saeb Erakat called formation of the right-wing cabinet a "declaration of the burial of the attempt to start the peace process."

Erakat was certainly justified to say so, for the cabinet's guidelines amount to a rejection of all demands by the Palestinians and the rest of the Arab people.

What is equally sensitive, if not even more, is the cabinet's insistence on Israel's self-designated right to settle Soviet and other foreign Jews in the occupied territories, seen by Arabs as a threat to their national security as a whole.

According to Israeli reports, an estimated 40,000 Soviet Jews arrived in the first four months of this year and up to 150,000 are expected for the whole year. Arabs fear that the new arrivals will eventually squeeze native Palestinians out of the occupied territories.

"Mr. No" has seldom concealed his intention to perpetuate Israel's occupation of these territories, home to 1.75 million Palestinians, and even annex them to the Jewish state.

So have those hawks in his new cabinet. One was Housing Minister Ariel Sharon, who reportedly said that the Palestinians may well set up a state in Jordan, instead of the occupied territories.

A soldier-turned politician, Sharon directed the 1982 Israeli invasion of Lebanon and in 1983, masterminded

the massacre of hundreds of Palestinians in Beirut's Sabra and Chatilla refugee camps.

The same Sharon, as Shamir's housing minister, will head a special committee in charge of settling Jewish immigrants.

Moshe Arens, the new defense minister, is a chief exponent in the Israeli-engineered campaign terming the PLO as a "terrorist" organization, a convenient excuse for the Likud and other right-wing parties to say no to any proposal leading to direct Palestinian-Israeli talks.

"Mr. No" did mouth some fine words on peace, asserting that "we shall talk peace to all the world, and shall not become tired in assuring everybody that we want peace and shall not stop working for peace."

Observers here take Shamir's words—no matter how fine—with a grain of salt. "Even if 'Mr. No' is sincere, he will continue saying no to peace because his hawkish ministers will not allow him to say otherwise," one said.

## EAST EUROPE

### First Bomb Explosion in Prague Since Changes Last Year

*OW0306064190 Beijing XINHUA in English  
0052 GMT 3 Jun 90*

[Excerpts] Prague, June 2 (XINHUA)—A bomb exploded here today in a crowded downtown square, injuring about 20 persons, including foreign tourists, the official CTK NEWS AGENCY reported. [passage omitted]

The explosion occurred in Prague's old city square at 16:12 local time (14:12 GMT), while hundreds of citizens and foreign tourists were there.

The home-made bomb, which was cased in a 40-centimeter steel tube packed with explosive materials and pieces of steel, was placed in a bag at the foot of the Jan Hus statue in the square, a popular weekend gathering place, CTK said.

The bombing is the first incident of its kind in the Czechoslovak capital since the changes taking place last year and before the forthcoming free elections in the country, said Andrej Samel, deputy interior minister.

## NATIONAL AFFAIRS, POLICY

## Sluggish Sales, Measures Analyzed

90CE0027A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, Jan 90 pp 10-12

[Article by Liu Lifeng (0491 4539 1496): "Tentative Analysis of Sluggish Market Sales and Measures for Dealing With It"]

[Text] Guided by the policy proposed at the Third Plenary Session of the 13th CPC Central Committee of improving the economic environment, rectifying the economic order, and deepening reform overall, after more than a year, through the efforts of the whole nation's people, initial results have already been obtained. The main results are as follows: economic overheating has already subsided, and the overly high rate of industrial growth has already dropped; fixed asset investment, consumer demand, and bank loans have already been brought under preliminary control; price inflation has already come back down, and the tendency toward currency inflation has also come under preliminary control; market supply is relatively stable; and the national economy has continued to develop. However, in the present course of improvement and rectification, there are also some problems. Among these, sluggish market sales is a problem deserving attention. The current market sales slump has the following special characteristics: First, consumer goods sales volume has dropped sharply, and is getting worse. Second, the sluggish sales of consumer goods has dramatically worsened, while demand has dramatically decreased. A conspicuous manifestation of this is that concession of profits and sluggish sales also appear in home electrical appliances, which had sold consistently well for several years, and which consumers have rushed to purchase at high prices. Third, the sales volume of capital goods also dropped sharply. In the second half of 1989, goods and materials supply and marketing enterprises throughout China sold 168.1 billion yuan worth of capital goods, which, taking into account the rise in prices, is down 22.8 percent from the same period the year before.

As to the effects of the market sales slump, first, it has greatly increased the amount of possession of circulating capital, which has hindered the turnover of funds by enterprises, aggravating the problem of corporate fund deficits brought about by tight money and credit.

This has further reduced economic returns of enterprises and reduced the nation's fiscal revenue. Second, it has seriously hindered the recovery of commodity currency, causing the cash and savings held by consumers to grow, thereby causing pressure on the market from consumption demand to increase, and harming market stability. Therefore, correctly understanding and resolving the problem of sluggish market sales is a major problem related to thoroughly carrying out the decision put forth at the Fifth Plenary Session of the 13th CPC Central Committee to implement further improvement, rectification, and deepening of reform, overcoming the current

economic difficulties, and realizing continued, stable, coordinated national economic development.

## 1. Sluggish Market Sales Are the Initial Effect of Improvement and Rectification

First, sluggish market sales are the inevitable result of improvement and rectification. According to the needs of improvement and rectification, it is necessary to limit investment and consumer demand, and it is precisely these that are the main factors causing sluggish market sales. From January through September 1989, units under ownership by the whole people made 126.1 billion yuan worth of fixed asset investments. This was a 7.2 percent decrease from the same period the previous year, and a decrease of over 20 percent if price inflation is taken into account. At the end of September 1989, the loan balance of China's banks was 1115.25 billion yuan, an increase of 60.1 billion yuan over the beginning of the year, 39 billion yuan less than the amount of increase of the same period the previous year. From January through September 1989, China's total wages were 178.4 billion yuan, and 18.2 percent increase over the same period the previous year, and the institutional sales volume of consumer goods was 52.1 billion yuan. Growth was 6.2 percent; if price inflation is taken into account, growth was negative. In order to stabilize the economy, in recent years, simultaneously with raising interest rates, value-protected savings have been implemented, significantly promoting the growth of savings volume. All of this has directly affected changes in the market sales volume. Of course, there are also other factors causing sluggish market sales, such as the lack of a ready market for some commodities, poor quality, high prices, and a significant increase in noncommodity spending of households, as well as excessive panic buying of commodities by households in 1988.

Second, sluggish market sales provided new favorable opportunities for further improvement and rectification. Sluggish market sales are an inevitable result of improvement and rectification, and conversely, it has provided favorable opportunities for further improvement and rectification. The main manifestations of this are as follows. First, it is helpful in controlling economic overheating. Under circumstances in which reform has not been completed under the traditional economic system and aggregate economic imbalance has not fundamentally changed, once sales slacken, economic overheating may recur at any time, and sluggish market sales have an important role, which is difficult to ignore, in checking excessively high industrial growth rates and currency inflation. Second, it is not only helpful in checking oversupplied products and promoting the production of undersupplied products, it is also helpful in promoting the development of enterprises producing products for which there are ready markets and having high economic returns, as well as limiting and eliminating enterprises producing products which do not have ready markets and have low economic returns. Thus, it is helpful in adjusting the industrial structure and the product mix. Third, it has produced a kind of pressure which has

spurred enterprises to raise their level of operation and management and perfect the contract management responsibility system, and has thereby spurred enterprises to raise their economic returns. Fourth, it has created a relatively favorable environment for rectifying the economic order, and has been helpful in gradually establishing an economy which conforms to the principle of intercombination of a planned economy and market regulation, and establishing a system of macroeconomic regulation and control, making comprehensive use of administrative legal methods.

Third, sluggish market sales are an initial effect of improvement and rectification. We regarded sluggish market sales above as an inevitable result of improvement and rectification, and held that it provided favorable new opportunities for further implementation of improvement and rectification. We did not say that it was the final result of improvement and rectification, and stated that it could only be called an initial result of improvement and rectification. This is because the ultimate goal of improvement and rectification is to realize the continued, stable, and coordinated development of the national economy. Moreover, the current sluggish market sales are confined to only some products, mainly to a portion of the consumer commodities for wearing and using. With respect to the many commodities for eating or burning, which make up the majority of the total volume of retail sales of consumer goods, not only has their volume of sales increased, they still tend to be in short supply, so much so that the supply of capital goods such as energy and raw and processed materials cannot meet the demand. If we consider the purchasing power that town and country households have accumulated over the years (which was expected to have reached over 700 billion yuan by the end of 1989), the problem of imbalance between supply and demand is still very conspicuous. This type of situation, where the commodity sales market is sluggish and commodities are in short supply, is in general [caused by] an economic environment where demand exceeds supply, and households are not able to realize their purchasing power, as well as the fact that there has been no fundamental change in the industrial structure's imbalance or in currency inflation. This kind of economic environment is precisely the problem that improvement and rectification are intended to resolve. What is worth noting is that the current sluggish market sales may still turn into overly brisk sales; even a trend toward panic buying like that which occurred repeatedly throughout China in 1988 may reappear. This kind of situation might occur, for example, under circumstances where economic overheating and currency inflation cannot be controlled, and value-protected savings are canceled. Therefore, the current sluggish market sales, which consists primarily of sluggish sales of some commodities, is unstable.

To sum up, we believe that it is generally recognized that the current sluggish market sales is of extremely great significance. The whole party and the Chinese people as a whole should unify understanding toward the policy

put forth at the 5th Plenum of the 13th CPC Central Committee that we must "continue to firmly implement the policy of improvement, rectification, and deepening reform, and adhere to the policy of tight money and credit, and we cannot shrink back in the face of temporary difficulties and leave the task of improvement and rectification unfinished."

## 2. Adhering to Improvement, Rectification, and Deepening of Reform Is the Basic Means of Eliminating Sluggish Market Sales

Let us now analyze the role of several key links of improvement and rectification in eliminating sluggish market sales.

First, continue to depress total social demand. Even though depressing total social demand has the role of aggravating sluggish market sales, aggregate economic imbalance is still the most serious problem of China's economy. Therefore, we must firmly place depression of total social demand in the top position of improvement and rectification. Only in this way can we resolve the various problems of economic imbalance, in which sluggish market sales is included. Moreover, depressing total social demand is the most important method of checking and alleviating currency inflation. The current rise in prices is also an important factor causing sluggish market sales. In this respect, depressing total social demand is helpful in eliminating the phenomenon of sluggish market sales. We must also explain that the policy of depressing total social demand by no means rules out the possibility of our adopting flexible measures under certain circumstances. For example, in view of the "three-corner debt" which has appeared due to sluggish market sales and fund shortages in the areas of production and distribution, we may approximately increase bank loans and use them to start up funds. This could both eliminate the "three-corner debt" and promote turnover of funds, and also be helpful in eliminating the phenomenon of sluggish market sales.

Second, adjust industrial structure. As stated previously, the current sluggish market sales is only a difficulty in sales of some commodities. There are also many commodities whose supply does not meet the demand. This imbalance between market supply and demand reflects an imbalance in the product mix. Therefore, adjusting the industrial structure is the most important means of improving sluggish market sales. The current rise in prices is caused primarily by aggregate economic imbalance, but it is also very closely related to industrial structural imbalance. Therefore, adjusting the industrial structure plays an important role in checking and slowing the rise in prices, and thus in eliminating sluggish market sales.

Third, rectify the economic order. In the course of economic structural reform, certain kinds of loss of control in state macromanagement caused serious disorder in such areas as production, construction, distribution, and allocation, and also caused many negative

aftereffects. They were also a factor leading to sluggish market sales. For example, reckless development and implementation of a "double track system" of prices by various kinds of companies in the distribution sector not only became an important factor encouraging the rise in prices, it also caused an excessive flow of the income provided by production enterprises into the distribution sector. It not only became an important cause of corruption among some government officials, unfair social distribution, and expansion of consumer demand, it also weakened the vitality of production enterprises, hindered enterprises from strengthening their adaptability toward the market. However, by taking charge of rectification of companies, particularly companies in the distribution sector, and effectively resolving abuses produced by the "double track system" of prices, it is possible to help enterprises adapt to changes in market demand and increase their ability to supply effectively. This will, to a certain extent, alleviate the phenomenon of sluggish market sales caused by an imbalance of supply and demand.

Fourth, help enterprises improve operation and management, and really get on the track toward increasing economic returns. Another important cause of the current sluggish market sales is the low quality, high prices, and unmarketability of a considerable portion of commodities. However, by improving the operation and management of enterprises, spurring enterprises to adjust their product mix, develop new products, improve product quality, reduce waste, and lower costs, we could both make the products of enterprises marketable and also check the rise in prices of products. Thus, we could also eliminate the sluggish market sales caused by the low quality, high prices, and low marketability of products.

It is worth noting that the potential that can currently be tapped by enterprises in this area is enormous. Every enterprise is fully capable of coping with the difficulty of sluggish market sales if only they keep looking ahead and endeavor to tap their potential.

We can see from this analysis that if only we earnestly take charge of improvement and rectification, we can alleviate and even eliminate the problem of sluggish market sales, and achieve long-term continuous, stable, coordinated development of the national economy. In this respect, there are no grounds for any pessimistic attitude or lack of confidence.

### Interrelationship of Inflation, Deficit, Devaluation

90CE0061A *Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS]* in Chinese No 2, 11 Feb 90 pp 10-14

[Article by Jiang Chun (3068 2504) of Wuhan University's School of Management: "On the Problems and Solutions of China's Macroeconomic Process"]

[Text] We have never made a comprehensive study of the interrelationship among inflation, the budget deficit, and the exchange rate as well as their effect on China's economy. This has prevented us from grasping China's macroeconomic process and from formulating the correct macroeconomic policies. This article is a tentative attempt to address the issue.

#### I. A Simple Model of the Vicious Macroeconomic Circle

Before we make a theoretical analysis, we should look at some data, and on that basis, we have prepared the following table:

Data on Inflation, the Budget Deficit, and Devaluation of the Yuan Over a Nine-Year Period									
Quantative Changes[Y]ear	1979	1980	1981	1982	1983	1984	1985	1986	1987
Inflation Rate (previous year's price = 100)	102.0	106.0	102.4	101.9	101.5	102.8	108.8	106.0	107.3
Fiscal Surplus/Deficit (in 100 million yuan)	-170.6	-127.5	-25.5	-29.3	-43.5	-44.5	21.6	-70.6	-80.3
[Portion of Budget Financed by] Debt Income (in 100 million yuan)	35.31	43.01	73.08	83.86	79.41	77.34	89.85	138.25	165.87
Exchange Rate (\$1 to RMB)	n/c	1.53	1.75	1.92	1.98	2.80	3.20	3.72	3.72

The above data show that quickening inflation, yearly budget deficit (except in 1985 when there was a small surplus,) and steady devaluation of the currency are among the obvious characteristics of China's macroeconomic process in recent years. If we look beyond these phenomena and make a theoretical analysis, we will discover a law that says inflation, deficit, and devaluation interact with one another to form a vicious circle.

First, let us look at the vicious circle of inflation and devaluation. If China's inflation rate is higher than that

of its trading partners, under the fixed exchange rate system of a pegged "basket of currency," the price or cost of domestic commodities will be higher than that of the foreign commodities. This will stimulate import and make it more difficult to export goods, and therefore we will have a balance of payments deficit. The larger the differential between our inflation rate and other countries', the larger will be our balance of payments deficit. Under the circumstances, the state may raise tariff and increase export subsidy to restrict import and stimulate

export, but these methods are not as effective as devaluating the currency. This is particularly true if the cost of obtaining foreign exchange through exporting is higher than the exchange rate. This is because after devaluation, the price of imports in terms of RMB will rise immediately; meanwhile, the price of exports in terms of foreign currencies will fall. It is even possible under the circumstances to make the exchange rate higher than the cost of obtaining foreign exchange, and this will help restrict import and stimulate export and in turn alleviate the balance of payments pressure. On the other hand, however, devaluation can produce the following effects: (1) The price of imported machinery and equipment, raw materials, and semifinished products will rise immediately, which will raise domestic production cost. In addition, the price of directly imported consumer goods and other final products will rise, which will eventually cause all domestic prices to rise. (2) Devaluation will increase the RMB holding of the exporting departments which receive payments in foreign exchange. This will increase the amount of currency in circulation at home. At the same time, it also signifies that there is money to be made by exporting, and consequently, all regions and all units will "squeeze" the already scarce commodities and resources at home in an effort to increase export, which will exacerbate the shortages in the domestic market. Moreover, devaluation will enable tourists and other foreigners who are in China for trade or on official business as well as some overseas Chinese to obtain more RMB with the same amount of foreign exchange, and they will be able to buy more of the now "cheaper" domestic products. In China, where effective supply is inadequate and demand far exceeds supply, this no doubt will further widen the supply-demand gap and aggrevate the demand-pulled inflation. Consequently, inflation and devaluation become each other's cause and effect and form a circle.

There is a similar circular relationship between inflation and the deficit. Statistics show that this country basically has run up a deficit every year. China's method of balancing its budget is such that debt income is added to the normal fiscal revenues to make up the total income which is then balanced against total expenditure to come up with the deficit figure. This kind of deficit is in essence a "hard deficit" which is impossible to remedy. This method of balancing the budget in fact understates the real deficit. In particular, this "hard deficit" which is the financial shortfall after debt income is already added to total revenues cannot be "remedied through debt financing." Since there is no other fiscal means to remedy the situation, the state relies on overdrawing from the central bank to solve the problem. This is the direct cause of the surge in money supply, which is followed by inflation. Conversely, inflation also exacerbates the budget deficit. This is because raging inflation leads to a rapid increase in spending and steady decrease in income in several ways: (1) If domestic prices are generally rising, in order to guarantee the normal needs of investment of human capital and development of

science and technology, to maintain a good social environment and economic order, and to perform its functions properly, the state must increase its normal spending (primarily expenses related to education, science and research, public health, administration, and social benefits and welfare) to keep up with the price increase. (2) Because the price of consumer goods is higher, the workers' real income is lower, and the government must increase spending on price subsidies. (3) Higher price of capital construction materials raises the cost of capital construction investment. Projects already under way demand more funds, which adds to the government's direct production-oriented expenses. (4) Higher price of means of production raises enterprises' production cost, which adds to their losses or reduces their profits. As a result, either the state must increase subsidies to enterprises that are incurring losses, or enterprises deliver less money to the state. (5) Generally speaking, to balance a budget, revenues should be received before spent, but because the state is slow in collecting taxes, by the time the nominal tax is finally collected in accordance with the tax base and tax rate, actual tax revenue (nominal tax discounted by the price level) has been eroded by inflation. Thus, the higher the inflation rate, the larger the budget deficit.

Finally, the deficit and devaluation of the currency also form a vicious circle. Under China's existing economic system, an increase in the budget deficit often signifies a larger trade deficit. This is because most of the manufacturers and foreign trade departments in the import-export business are state-owned. Thus, when China imports more than it exports, that is, when its foreign exchange spending is larger than its foreign exchange income, it eventually will be reflected indirectly in the growing budget deficit, because under the circumstances, taken as a whole, the country is not earning enough foreign exchange through exporting to meet the foreign exchange needs of importing, and eventually enterprises will be delivering less money to the higher authorities, or the state must give enterprises more subsidies. This is especially true when the state's administrative departments purchase huge quantities of imports. Thus, there is a positive correlation between China's budget deficit and trade deficit. Growing trade deficit puts pressure on the government to devalue the currency. Conversely, devaluation also increases the budget deficit. This is because: (1) As determined by the mix of China's import and export plus the fact that China's is a price-taker in the world market, even though devaluation of the currency may raise the price of imports, since most of China's imports are machinery and equipment and other capital- and technology-intensive manufactured goods as well as raw materials and semi-finished products urgently needed in domestic productions and which are essential if we hope to upgrade China's production and technologies, we cannot import less despite the higher prices. Thus, domestic manufacturers who use imports as input face higher cost, so they deliver less income to the state, or the state must give them more subsidies. The bulk of China's exports are primary products (such as

petroleum, coal, rare metals, and agricultural and sideline products.) Both the domestic supply and the world demand for primary products are relatively inelastic. Devaluation may lower the price of exported primary products, but it cannot increase the export volume sufficiently to offset the price drop, and as a result, export income is reduced, and ultimately this is reflected in reduced government revenues. (2) Compared to foreign countries, wages, shipping cost, and the price of basic consumer goods and services are lower in China. Therefore, from the standpoint of purchasing power, devaluation of the currency widens the price gap even more, further depressing the nontrade exchange rate. It reduces the foreign exchange income we derive from providing foreign shipping and tourist services as well as labor export and other nontrade sources. As a result, economic sectors that provide foreign shipping and tourist and other services will deliver less income to the state. Meanwhile, devaluation of the currency increases the operating cost of our overseas consulates and embassies and assorted business organizations and agencies and the expenses of units and individuals travelling abroad and other nontrade foreign exchange expenditures. These increases will eventually add up to higher public spending. (3) Devaluation increases the debt burden. China's foreign debts have been mounting in recent years. Since most foreign debts must be repaid in foreign currencies, and because RMB is not convertible and cannot be used in international settlement and payments, devaluation means the same amount of foreign currency will be worth more RMB than before and the same foreign debt will take more RMB equivalent to redeem. So far as the budget is concerned, this means the government must spend proportionally more on principal and interest to repay a foreign debt after devaluation. Thus, devaluation and the deficit also tends to give impetus to each other.

## II. Economic Effects of the Vicious Macroeconomic Circle

The vicious circle made up of inflation, deficit, and devaluation produces several adverse effects or results that impact the national economy. Theoretically, the effects are in three areas:

### (1) The negative effects on savings and investment

Budget deficit implies negative savings on the government's part. A steadily growing deficit will put pressure on the government to decrease investments, especially productive investments. In China's situation, because the government is the prime investor, it will have a huge impact on the economy's investment rate. Raging inflation, on the other hand, prompts people to increase spending now to avoid even higher prices in the future and discourages savings. This is especially true when the inflation rate is higher than the nominal rate of interest, because it reduces the real interest rate to a negative number. Consequently, society's, individuals' and families' rate of savings will decline steadily, which will reduce the source of investment funds. Although, under China's tight foreign exchange management policy, and

because the RMB is not freely convertible, devaluation of the currency has not resulted in the fleeing of short-term funds to avoid losses, it will reduce foreign investors' profit when they convert their RMB earnings into foreign currencies, because RMB is worth less now. Such loss makes it difficult for us to attract long-term capital to this country. Moreover, if a country's currency is devaluation-prone, foreign investors will lose confidence in that country's currency and will hesitate to invest there, and in today's situation where the West is generally in a recession and there is a flood of capital in the world market, it makes it even more difficult for us to bring in more foreign capital to fill the "savings gap" at home. The combined effects of the changes in these three areas will steadily lower the economy's savings and investment rates, and in turn the economy may gradually lose the source of strength and the internal drive to sustain growth.

### (2) The negative effect on the economic structure

Under pressure from the growing deficit, the government not only is increasingly unable to make massive, concentrated investment in the leading industries, the burgeoning industries, and the key sectors, which together represent the direction of this country's economic development, but is also unable to make large investments in the "bottleneck" sectors (such as energy, raw material, and agriculture) in hopes of improving the economic structure. It is finding it especially difficult to sustain investment in the infrastructure (such as shipping and transportation, power plants, and communications). This makes China's unbalanced economic structure even worse. As inflation escalates, prices will change suddenly and will become unpredictable, so that price signals no longer truly reflect relative cost, utility, and scarcity of the resources. Manufacturers will have no basis on which to make accurate production and investment decisions, and this will lead to poor resource allocation. Meanwhile, inflation will also trigger short-term, speculative investments and dim people's interest in long-term or capital-type investments where the construction period is long and the profit to capital ratio is low. This will make the processing industry which has been growing at an abnormal rate expand even faster, exacerbating the disequilibrium between the processing industry, and the energy and raw materials industries. Moreover, inflation will prompt the manufacturers to stock as many goods as possible, and some may even illegally buy up unneeded goods that are expected to increase in price, hoping to make a profit when prices do increase. This will result in an unnecessarily large stock of goods and eventually will produce a poor investment structure and production structure. Steady devaluation of the currency raises the price of imports. This prevents us from importing advanced technologies and equipment in large quantities to improve our poor and backward industrial structure, as well as upgrade the enterprises' backward technologies and obsolete facilities. In turn, this will hamper our effort to improve industries and adjust the economic structure, and China's economic structure will not be able to keep up with the

development of the world economy. In short, it is inevitable that the vicious macroeconomic circle will cause the economic structure to become unbalanced, and in turn this will lead to inefficient resource utilization and inadequate effective supply.

(3) The negative effects on economic growth

Diminishing savings and investment and structural disorder will eventually slow the increase in national income. Moreover, the sustained and vicious macroeconomic circle will bring economic disorder and create a chaotic economic environment, and policies will have to be changed again and again to cope with the situation. In particular, we may be forced to adopt some control measures that undercut the market's functions, which will lead to economic inefficiency and will obstruct effective economic growth.

**III. Ways To Turn the Vicious Macroeconomic Circle Into a Benign Circle**

According to Dingbaigen's [Ding bo gen 0002 0130 2704] Law in the theory of economic policies, in order to turn the vicious macroeconomic circle into a benign circle and realize our long-term economic goals, we need appropriate measures that address at least the following three issues:

(1) We should stabilize the money supply and raise the interest rate.

The money supply has been increasing fairly rapidly in recent years. If the money supply increases faster than the rate of economic growth, it not only becomes the main cause of inflation but also the basic cause of devaluation of the currency. To break this vicious macroeconomic circle, first, we must stabilize the money supply and set a long-term goal for steady increase in the money supply according to China's actual productive potential (not according to the presumptive, unrealistic rate of economic growth). We must put an end to the practice of increasing the money supply to make up for a deficit on an emergency basis. We need to give play to the productive potential and provide a stable monetary background to achieve effective economic growth. At the same time, in order to solve the problem of lack of necessary funds to finance economic growth, we must raise the interest rate and put an end to the low-interest phenomenon in China. Interest rates should reflect the scarcity of funds and the supply-demand situation and should play a role in regulating savings and investments as well as the supply and demand of money, so that they can help increase savings and improve investment efficiency and in turn help broaden and reinforce the revenue base and stimulate the people's demand for money (primarily deposits) and curb the excess increase in money supply. Moreover, if capital is allowed to circulate freely, higher interest rates will attract more foreign capital, and this will also help stop the constant devaluation of the RMB.

(2) We should tap more tax sources and remedy the deficit through the use of credit.

To ease the pressure exerted by the budget deficit and to give full play to the government's role in economic development, we should tap tax sources and add new types of taxes to increase revenue. Meanwhile, we should also broaden China's narrow tax base and gradually perfect the tax structure. At present, China's taxes are collected mainly from the commodities market (such as product tax and business tax). Little tax is imposed on capital goods (this is also the reason why manufactured good prices are too high and primary product prices are too low in China). From the standpoint of economic development, capital goods are a huge source of tax revenue; therefore, higher taxes should be imposed on capital goods. Realistic conditions in China warrant greater attention be put on land tax. It will not only increase revenues significantly but will also help promote the improvement, conservation, and utilization of land, a scarce resource. This is extremely important to China where the per capita cultivated land ratio is among the world's lowest. On the other hand, we must make every effort to improve economic efficiency in spending, striving to "do more with less money." To this end, we should rely on the method of cost effectiveness analysis and the concept of opportunity cost to budget our spending (especially direct production-oriented spendings). To break the vicious circle between deficit and inflation, when we spend more than we earn and end up with a deficit, we must never turn to overdrawning from the central bank but should use credit instead (this means we cannot include debt income in the total revenue when balancing the budget) and should stipulate that all budget deficits be remedied through the issuance of public debt to avoid overdrawning from the central bank, which will lead directly to inflation. Some people may worry that issuing and accumulating large sums of public debt will have a negative impact on the economy. There is no need for concern. So long as it is used properly, public debt can be an effective policy-tool for the government. For this reason, we need to have different kinds of public debt instruments of different terms and interest rates. We should open a secondary market for public debt instruments and permit the buying and selling and transfer of those instruments to increase their mobility and enhance their prestige. On the one hand, this will remove the obstacle to the development of public credit; on the other hand, it will allow the government to implement functional financial policies, so that it can take the initiative to alternate between tight and loose financial policies by issuing and redeeming public debt according to the country's economic needs and smooth out the cyclical economic fluctuations and guarantee economic stability and growth. Moreover, this will help the central bank start an open market operation to regulate the money supply via the buying and selling of public debt instruments and in turn help regulate total supply and demand.

(3) We need to change our foreign economic policy to complement the above reform.

Both theoretically and realistically, the rise and fall of the exchange rate is but a monetary phenomenon. What actually determine the change are the real economic variables. On the surface, devaluation of the currency is caused by an excess demand for foreign exchange, but in fact it is because the labor productivity rate at home is on the decline, the economic structure is out of order, and the products are unable to compete in the world market. Therefore, in the long-run, if China is to stabilize the RMB's exchange rate, the key lies in increasing its international trade capacity. To this end, first, we should gradually link the domestic relative price system to the relative price system in the world market, correct the situation where domestic prices cannot reflect actual relative cost or profit, and help China's enterprises understand the relative price and cost difference between foreign and domestic products, so that they can make accurate international cost and profit comparisons. Only in this way can China's foreign trade be truly founded on the basis of comparative advantages. Second, upon straightening out the prices, we should take a step further and restructure the foreign trade system and gradually let the manufacturers get into the world market and subject them directly to the pressure of fierce competition and encourage them to develop new products to meet the needs of the international market's changing demands and to strive to improve labor productivity, lower production cost, improve product quality, and enhance their competitiveness in the world market. Finally, we should gradually upgrade our export-mix and improve conditions at home to facilitate foreign trade. China is poor in resources but rich in manpower. Accordingly, we should vigorously develop the export of labor-intensive products and improve the present export-mix which is dominated by resource-intensive products. At the same time, we should actively improve our conditions, especially by making constant technological advancement to gradually upgrade China's export-mix to where it will be exporting primarily products with high added-value and which are capital- and technology-intensive. This in turn will enhance our international trade capacity, and in this way, China's economy will continue to grow as it competes in the world market and will be ensured of balance of payments. Moreover, in an open economy, a change in the export-mix will spur on a change in the domestic industrial structure. By upgrading its export-mix, China may be able to make its industrial structure more advanced. Together, they will provide a firm base for stabilizing the RMB.

In coordination with the kind of reform and development of foreign trade just described, we must also restructure China's present exchange rate system, which in effect is a fixed rate system. When domestic prices are distorted and inelastic but world prices are changeable according to supply-demand conditions, a fixed exchange rate system will further exacerbate the already dislocated foreign-domestic price relationship and will hamper efforts to link the domestic and foreign price systems and will prevent the accurate conversion and comparison of domestic and foreign prices. It will also

lead to reckless importing and exporting without regard for real cost and will eventually add to the budget deficit and undermine the healthy development of our foreign trade. Therefore we need reform. In view of China's actual conditions, the ideal program is to adopt a mechanically-operated flexible exchange rate system (under this system, government policies are the primary factor and market strength is the supplementary factor, which differs from the managed variable rate system where the market is the primary element and man-made factors are supplementary). First, the government can set the basic exchange standards according to the macroeconomic policy goals and the economic development strategy, and the exchange rate can be adjusted mechanically upward or downward depending on the domestic and foreign price ratios, the change in the cost of obtaining foreign exchange through import and export, and China's balance of payments and foreign exchange reserve situations and other spontaneous variables, so that the exchange rate really reflects the normal changes in the actual economic situation. In this way, when international prices are converted using the proper exchange rate, they will provide an accurate signal, and the domestic manufacturers will have a better idea of the real value of the export goods and the real cost of the imported commodities in the world market, so that we can export more goods that are profitable and import less goods that cost less to produce here than abroad. This will facilitate the automatic adjustment of the balance of payments and ease the budget deficit pressure. Moreover, if the domestic price system is linked to the foreign price system, this flexible exchange rate system will help prevent the spread of inflation worldwide and interfere of other foreign elements in our economy, and in turn it will guarantee the stability of the domestic economy. To facilitate the implementation of the flexible exchange rate system, we must gradually open a foreign exchange market and let the supply-demand conditions in that market provide the reference point for adjusting the exchange rate properly to give play to the regulatory effects of exchange rates. To avoid the risks associated with volatile exchange rates, we should also consider opening a foreign exchange futures market.

#### Thoughts on Current Economic Situation, Recommendations

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[Article by Wang Yukun (3769 5148 3824) and Feng Lixin (7458 4539 2450) of the State Council's Research Center for the Development of Economics, Technology and Society]

[Text] Since the retrenchment of September 1988, the momentum of society's overall search for expansion has been restrained, the market has effectively declined, and the price index has fallen monthly. But since the second half of 1989, we have had a market slump, economic benefits have dropped, and the industrial pace has gone

into a slide. Last October, the rate of industrial expansion was -2.1 percent, and statistics indicate that the rate for the entire year was about seven percent, and the growth of gross domestic output was about five to six percent. Current industrial expansion is putting state revenue into a tight spot. To maintain a constant economic growth rate, there must be improvement in revenue and expenditures. Since the Fifth Plenary Session, the money market has shown signs of becoming more flexible. In 1989 credit from the People's Bank was on the scale of \$16 million; actually, it put \$6 million worth of loans into circulation during the first three quarters of the year, and \$10 million into service during the last quarter. We know that first, there is no way of amassing a large amount of credit within a short period of time; and second, at the same time that we are sticking to massive retrenchment, credit will support structural adjustment.

#### **The Most Restrictive Factor in Current Economic Development Is the Market Slump**

There are at present three major problems in our economic development: limited natural resources, the difficulties enterprises have with fund turnover, and the market slump. Reports indicate that since last August the supply and demand relationship for natural resources and raw materials was somewhat loose, so that the supply of electricity and coal is basically sufficient to satisfy needs. In the first part of the year, because of insufficient electrical power, enterprises in Zhejiang and Jiangsu were closed three out of seven months, but now there are no enterprises shut down for that reason. When looked at in relation to the total, operating funds for enterprises are not too tight, chiefly due to an illogical financial usage structure; there is an excessive proportion of funds used to produce finished goods, and there is a critical shortage of loan funds and reserve funds. But regardless of whether it is the supply of natural resources restricting certain processes or an illogical structure for use of enterprise operational funds, while creating a shortage of loan funds, these are directly related to the market sales slump. From this one could say that the market slump is right now the most fundamental factor restricting economic development.

At present, slumps have appeared for certain products in varying degrees in both the consumer goods market and the production materials market. Naturally, at the same time the supply of many products cannot meet demand. The market slump for certain commodities has a very strong convergence effect. At present this structural market slump is partially related to retrenchment. For example, reducing the fixed assets investment model and the collective ability of society to make purchases restricts consumer fund increments and transforms consumer fund savings (through raising interest rates on savings deposits and assuring that the deposits increase the banks' deposits). This is in part indirectly related to retrenchment. It is also a flaw in our work and is related to the blind development of recent years as well as the structural problems of China's deeply layered economy.

This has led to the abnormal factors behind the present market slump, which can be summarized in the following several points.

First, there is effective control of the basic construction scale but no assurances that key projects will be built. At present there are many key construction projects undertaken on a large scale but with no guarantee that money will be available later for continuing the project. Last year there was key construction funding which depended upon a planned 9 million yuan worth of bonds as guarantees, but to date only 1 million yuan of these bonds have been sold. A lack of guaranteed funding for key construction projects can drag out the time limit for project completion, decrease economic benefits, and at the same time reduce normal ability to purchase production materials and consumer goods, thereby bringing on a market slump.

Second, there is no guarantee of funds for the purchase of agricultural products, which diminishes rural purchasing power. At the present time, there is still no assurance of funds for the purchase of grain, cotton, oil, and other agricultural products used as industrial materials. Some provinces and localities are giving the peasants a blank check, while some places are simply not buying. There are two reasons for the lack of guaranteed funds for purchase of agricultural products: a portion of the funds are diverted by local governments, and there is insufficient verification on loans. The banks take 1984 figures as their credit base for verification of lending for the purchase of agricultural products, and under conditions of rapid inflation and a greatly increased volume of payment in kind, the scale of lending is clearly inadequate.

Third, speaking of the relatively unbalanced income structure for some home electrical products and woolen goods, these have already reached a certain degree of saturation, providing an excessive need for ability to pay. Take refrigerators for example: nationally, the ownership of refrigerators in society has reached 20 million units, of which 80 percent are in the four cities of Shanghai, Beijing, Guangzhou and Tianjin. The demand for refrigerators this year will be approximately 6 million units, while the present annual production capacity is 13.5 million units. Another example is wool: domestic unprocessed wool can satisfy only one-fourth of production capacity, so 75 percent of washed wool must rely on imports, while the output of wool products for export is about 15 percent of capacity. In recent years we have steadily imported expensive foreign wool to satisfy our domestic needs. In the overall view, the household income level is still somewhat low, and for several years now the consumption of "warm woolens" by high income consumers has definitely reached saturation. Therefore, woolen products and household electrical products were the same last year, i.e., among the ranks of the unmarketable.

Fourth, there exists in both China's supply and demand a signal amplification mechanism which doubles the

changes to which each is subject. Last year's lack of sales and the rush to purchase of the year before, each had its beginning in this signal amplification mechanism factor. To a very great degree, this amplification mechanism can be explained as being the creation of both consumer and producer. China's consumers have only a limited selection, and when one adds income allocation from an overall trend to egalitarianism, it makes consumption appear to be a synchronous structure having a small number of concentrated commodities. Our enormous population makes up a very diverse market, having a consumption structure which is concentrated and synchronous: If each consumer buys one more box of matches, it will create a serious shortage of matches, but if each consumer buys one less box, matches will be seriously overstocked. China's production units are for the most part "large and complete," or "small and complete," in composition, so that they are relatively similar in commodity structure and organization. So they are often in step in the way they reflect the market's supply and demand, and thereby amplify the small signals of supply and demand.

Therefore, how were these similar consumption and production structures formed? The residents' affordability and selection of consumer goods is not only related to their income level at that time, it is also related to their ability to buy with a prior surplus, and to the consumer behavior in the prior period, as well as to national consumption policies. The problem can be explained in part by the cyclical nature of consumer behavior changing into the decline of the consumers' actual ability to make purchases, but it cannot completely account for consumer selection behavior. We know that something more essential is China's implementation of a general policy on material benefits, which is characterized by a stress on essentials. Such consumer items as urban housing, medical care, care for the elderly, and education of the young all require a long period of savings and are all rationed by the government through enterprises in an in-kind form. This severely limits consumers' choices and limits household consumption in such areas as food, clothing, etc. At the same time, due to the imperfection of the mechanism for blending capital, it also deters the conversion of household individual income into capital and therefore forms a consumption structure which is in the manner of a synchronous, concentrated assault.

The categories of China's production structure came into existence for various reasons. An abnormal consumption structure is one very important factor, but there are others. The pricing structure and the structure of industrial organization have also been decisive factors. The chief irrationality in China's pricing structure is that there are low prices and strict controls on scattered products from the land, and high prices with strict management of finished goods. In a centralized, planned economy, the function of this sort of pricing policy is still not apparent. In 10 years of reform, the power to make economic policy decisions has been scattered among

local and production units. In an economy where the powers are dispersed, the leading function of pricing policy in industrial format is extraordinarily obvious. The reform of the past few years has largely consisted of administrative dispersal, the formation of a structure in which powers are decentralized, but we have yet to form a rational price structure which is economically suited to this dispersal of powers. When an illogical price structure and an abnormal consumption structure were combined with a "nobility economy" in a "large and complete" and "small and complete" structure, it promoted a production structure which was extremely unstable.

#### **The Emphasis of the Present Economic Policy Is To Open Up the Market by Adjusting the Structure**

The foregoing analysis shows that the market slump is the basic limiting factor in the growing difficulties that industrial production is having with financial expenditures and income. The market slump is a normal component of retrenchment. It is also a component of the price, quality and variety of goods, and of the composition of household income and consumption. The market slump also "brings to light" the composition problem of China's economic layers, and what is revealed is fairly complete. The market slump has sent similar production in a "nobility economy" into a blind alley, and under a policy of "full benefits" makes the use of similar consumption in an instable macroeconomy even more prominent. At the same time it has also placed on the agenda the price structure of similar initial production and similar consumption.

Looking at the pressure of China's currency inflation, the twisting, layered structure still exists. We are in a situation in which enterprises are having difficulties with turnover of funds, with no way of adjusting the structure, plus the market slump is the most basic limiting factor. Therefore, it is now possible through bank credit to give impetus to structure adjustment and open up the market, but we absolutely cannot be impatient in loosening the money market. To concentrate a large amount of credit within a short period of time will not help adjust the structure; rather, it can conceal structural problems. It will not aid in opening up the market; rather, it could send the market into even greater decline. With this policy of structural adjustment as the focus, we make the following several policy suggestions.

#### **1. Seize the opportunity to push for price reform, and strengthen macroscopic coordinated management.**

At present, market supply and demand has slowed completely, making the present an excellent time to put the price structure in order. We should raise the plan prices of such basic commodities as energy, raw materials, and foodstuffs and reduce the price differences on brands in the market. While not causing overall price inflation, this has the goal of weeding out some enterprises whose products are unnecessary in variety, quality, and scale in order to attain superiority, eliminate the inferior and invigorate the market, and increase

household consumption at that time. Naturally, the degree to which this price reform is pushed will depend upon the economy's capacity to withstand enterprise failures and the transfer of resources.

At present it is difficult to carry out adjustment of the industrial structure in this "nobility economy." From the central government down to the province, the municipality and the county, there is a distinct difference in temperature when it comes to structural adjustment. It seems illogical from the standpoint of the central government, but it may appear to be logical to local governments. It will be difficult to bring about the desired results if the means employed to implement structural adjustment is administrative order; the use of economic means may be more successful. In practice, during the market slump, there have already been small and large industries competing for materials and for small enterprises in the market to shut down. This can then alter duplicate construction, breaking through the "large and complete" and "small and complete" production setup, and bring some very good fortune. Consideration should be given now to setting up in the microcosm a mechanism for smoothly distributing profits between resource producing areas and processing bases, which could tentatively break through geographic limitations, and establish a definite model for economic alliances.

2. Assure capital for purchase of agricultural products, putting an end to the "i.o.u." phenomenon, and opening up the rural market.

Rural products are seasonally very strong products, with some having only one season a year, so to miss purchasing in that season can affect the following year's production supply. Looking at last year's situation, with rural products as the materials, the light textile industry is still basically stable. Assuring the capital for purchase of agricultural products on the one hand will increase the ability of rural villages to make purchases and attain the goal of opening up the market; on the other hand it will also build up the reserves necessary for preparing the following year's production supply.

3. Increase a part of the commercial low interest loans to strengthen the purchase of some appropriate commodities and increase wholesale commercial reserves.

State-operated commercial wholesale enterprises in commodity circulation can handle the regulation function, but in the current market slump, commercial wholesale enterprises are incapable of making the fullest use of this "reservoir." In recent years interest rates have risen repeatedly, going from 6.6 percent to 9.45 percent, and for a time loans were at 11.45 percent, calculated to have risen at a rate of more than 50 percent. The state has historically contributed very little of its own money to China's state-operated wholesale enterprises, and has on several occasions of lower prices made cuts, now averaging about 10 percent, which cannot be made up within a short period of time; this is tantamount to driving up interest rates. Many local banks have their

own land policies, cutting down on fixed loans, expanding short term loans, raising interest rates, negotiating interest, etc. This way, when the market needs state-operated wholesale enterprises to bring the "reservoir" function into fullest use, the state-operated commercial wholesale enterprises will be unable to operate normally. We should consider setting a point and a direction for giving low interest loans to state-operated commercial wholesale enterprises for the purchase of appropriate commodities, easing these enterprises' turnover difficulties. There should be a serious halt called to illogical interest rate increases.

4. Make suitable increases in loans for technological transformation, to ensure a supply of capital for key construction.

Loans for technological transformation are chiefly used for required equipment, instruments, and tools. These on the one hand increase production capabilities and on the other increase the need for machine industry products. At present there are severe pressures nationally for machine industry products, with the machine industry operating below capacity. From the angle of making fullest use of our current production abilities and the key factors of production, as well as repaying our foreign and domestic debts during peak periods of economic growth in the 1990's, in the present situation of monetary possibilities technological loans should not be pressed too severely. Key construction projects which have already been decided upon should swiftly receive the funds they require.

5. On the basis of industries' characteristics, set points and directions to ensure reserves of energy and raw materials for key enterprises.

Banks, planning committees, and specialized departments should organize small coordinating groups, and according to the characteristics of the specific industry ensure reserves of capital for key enterprises. The specific work should be done painstakingly, and not simply by designating credit that will be extended to large and medium-sized enterprises. Some sectors, such as light industry, have medium and small enterprises as their backbone, and a great many of these are key enterprises. And some sectors, although their key, backbone enterprises are large and medium in size, have a very great extent of specialized cooperation, while many medium and small enterprises perform complementary services. If these medium and small enterprises are not operational, then the large enterprises cannot be operational either. Therefore, comrades from several areas should sit down together and on the basis of a market analysis of supply and demand, help sustain those key enterprises which turn out good products in a variety that satisfies needs, and determine what reserves of operating capital they need.

6. Starting with the banks, carry out a one-time, national cleanup of debts.

One of the important reasons for the problems enterprises are now having with turnover of capital is that they are seriously behind in payments to each other. The sources and direction of capital should be controlled by banks, linked with various commercial interests, so that it will really be set up as a triangular debt; but it will not work unless it starts with the banks. Very recently, Shandong organized in Jinan a one-time debt settlement throughout the province, with good results. We recommend that the banks organize relevant departments and localities, and all along the chain of debt set these completely in order from bottom to top, linking this action with reform of the banks. Reform of the banking system should be synchronized with the growth and development of the entire market and in compliance with laws and regulations. Although reform of the methods by which accounts are settled conforms with the direction of socialist production, it is out of line with the growth and direction of China's markets and with her laws and regulations. In the process of implementation, it not only has been ineffective in rapidly simplifying the settling of accounts; it has even made turnover of capital even more sluggish. We recommend that the banks decree a system for carrying out the unified, continual collection of payments, thereby strengthening their supervisory function, ensuring their control of capital, strictly overseeing the prompt repayment of debts by enterprises, and, for those whose payments are in arrears, fixing times and periods for repayment with interest.

#### 7. Suitably lower interest rates on fixed savings deposits by 2 to 3 percent.

Interest rates on bank deposits are illogically structured. Banks' responsibility for managing these is one of the reasons for fiscal instability. In view of the current market slump and enterprises' difficulties with capital turnover, and the difficulty in raising the interest rates on loans, we recommend that fixed savings deposit interest rates be lowered by 2 to 3 percent. The interest rates should be flexible. When the rates on deposits were lowered the year before last, deposits sank sharply, and interest rates should have been raised. Last year, credit withdrawals were done too quickly, with insufficient buying power in the market, so the interest rates on savings deposits should be lowered appropriately. There will still be inflation, ensuring that the value of deposits can still be maintained along with currency stability and that subsidized interest can drop on its own.

#### Macroeconomic 'Mixed Model' Viewed

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[Article by Chen Jianjun (7115 1696 6511) of the Economic Research Institute of the Zhejiang Academy of Social Sciences: "On the 'Mixed Model' of Macroeconomic Regulation and Control"]

[Text] The reform of the economic system of China has been implemented for 10 years. If we say that the direction (that is to take the enhancing of enterprise

vitality and the turning of the constraining mechanism into a rigid one as the reform direction) which has been adopted over the past 10 years has been a basically correct one, then the reform of the means of macroeconomic regulation and control [tiao kong 6148 2235] has comparatively been under a chaotic situation. Therefore, we should renew our understanding on this aspect, and should rethink and redesign this aspect.

#### I. Evaluation of the Existing Macroeconomic Regulation and Control Model

The basic point of designing the macroeconomic regulation and control model for the operation of a socialist economy lies on how to find out the best combination between planned regulation [tiao jie 6148 4634] and market regulation. Liu Guoguang has used the completely centralized planned regulation and control model as one end and the pure market regulation and control model as another end to define the feasible solution region in which the economic regulation and control model of various reforms have been adopted.<sup>1</sup> Over several decades, some theorists on socialist reform have been exploring within this region various models of the combination between planned regulation and control and market regulation and control. For instance, such models have been developed from the (Lange) [lan ge 5695 2706] model, into the (Pelosi) [bu lu si 1580 7627 2448] model, the (Schick) [xi ke 6932 0344] model, and the market coordination model (that is the so-called IIB model) with macroeconomic regulation and control developed by (Kearny) [ke er nei 4430 1422 0355], and so on. Here, we can see the following two tendencies: First, it seems that reform theorists have a stronger and stronger favor in using the means of market regulation and control; and second, the combination between planned regulation and market regulation has been gradually changed from a lateral "parallel linking" relationship into a vertical "series linking" relationship. In the (Lange) model, we can see that planned regulation and control is opposing market regulation and control, and a situation where both of them cannot exist together is formed. When the IIB model developed by (Kearny) emerged, planned regulation [tiao jie 6148 4634] in fact lost its significant role.

It is obvious that China's economic structural reform theories have been influenced by East Europe's reform theories. With the introduction and the wide spread of the theories and viewpoints of (Lange), (Pelosi), (Schick), (Kearny), and so on, China's macroeconomic regulation and control model has been transformed from a "parallel model" into a "series model." Similar to the "parallel model" developed by (Lange) is the "sectional model" so-called by the Chinese theoretical circles. People have already had much discussion on the shortcomings of this model.<sup>2</sup> The model which has been developed after such model and has been generally accepted by people as the target model of reform is a model where "the state

regulates [tiao jie 6148 4634] the market and the market guides enterprises." This is a so-called "organic combination" model where plans and the market are infiltrating into each other. The general thinking line of this model is: The state uses the parameter, which can reflect the targets of plans, as the economic lever to regulate the market, while the market will convey corresponding variables to regulate enterprises' decisions.<sup>3</sup> This is a macroeconomic regulation and control model that has been substantially influenced by the IIB model developed by (Kearny). It cannot be denied that this model, whether on the aspects of rational deduction and demonstration, or on the attraction of the target itself, is far more perfect than the "sectional" model. However, even though we have not pointed out the high degree of difficulty in the practical operation aspect of this model and the instability that will result from such difficulty, this model has theoretical defects which we cannot neglect.

First, the key to the establishing of the "organic model" lies on a perfect market. This is not only a conceptual market where the buyers and the sellers exchange commodities, but is a system corresponding to plans, and has the function of regulating and controlling the operation of the economy.<sup>4</sup> Obviously, it will take considerable time to form such a perfect market in China. In the transitional period which will last for more than several decades, what should we use to regulate and control the economy?

Second, this model does not answer the question of market failure, nor the question of how can the state regulate and control the economy to achieve specific development targets at a specific historical stage. The "organic model" has provided enterprises a market shelter against direct state interference. However, this has blocked some essential channels through which the state can directly interfere with enterprises. Economic theories tell us that even in countries which have a modern market economy, market failure will also occur. For instance, on issues involving risks, high-technology, monopoly, externalities, full supply of public property, and so on, direct state interference is often required. In order to achieve specially designated development targets, developing countries will adopt a protective or a forwarding development strategy, and it is usual that the government of these countries will directly interfere in some industries and departments. Moreover, the scale of such interference will not be small.

Similar to the case where high expectation has been placed by the traditional macroeconomic regulation and control [tiao kong 6148 2235] model on planning, the greatest defect of the "organic model" is that it has placed high expectation on market regulation [tia jie 6148 4634], and has thus neglected its limitation on the aspects of time and space. This is exactly what we should avoid when we design new models of regulation and control.

## II. Preliminary Plot and Design of the Mixed Model

In view of the defects of the "organic model," it is essential to modify and perfect this model. In order to make it clear, we call this model of regulation and control, which has been modified, a "mixed model." The "mixed model" is mainly a result of the improvement of the "organic model" in the following three aspects. (1) The power of state macroeconomic decision-making departments in interfering in the operation of the economy has been enhanced. (2) The flexibility of the model has been increased to match as much as possible the path of reform and development. (3) Large- and medium-sized key enterprises and enterprise groups have been placed at an outstanding position. The "mixed model" will adopt individually or comprehensively the following three ways of resource allocation in accordance with different situations. (1) Macroeconomic decision-making organizations will use the means of planning to allocate resources. (2) The market system will use the method of market regulation to allocate resources. (3) Joint enterprise bodies or enterprise groups will use modern management methods to allocate resources.

According to the criteria for determining whether a market system can be established and whether the market mechanism can effectively develop its role or not, economic and industrial departments can be divided into two categories: One of the categories is the departments which can be, or are possible to be, regulated by the market; and the other category is the departments which are difficult or are not possible to be regulated by the market. The establishment of a market system is determined by two basic factors: First is the price problem. When price is not a market parameter variable but is still a parameter variable of state organizations responsible for handling macroeconomic regulation and control, then the role of market as a system for regulating and controlling the economy will not be effectively brought into play. We fixed the degree to which price is to be determined by the market as the degree to which the control on price is relaxed. Second is the problem of ownership. In forming a market system, ownership should be divided and exclusive. If the ownership of all commodities, which are for exchange, comes from one main body, a market system cannot be formed, and the role of the market mechanism cannot be brought into play. However, ownership is only a using right which tends to have no time limit and no constraint.<sup>5</sup> Therefore, when ownership, which has been weakened, i.e. the using right, is defined, a market system will be formed. However, such using right (or is called weakened ownership) should be divisible and exclusive. Ownership that cannot be divided and is not exclusive is the so-called "public property" in Western economics. For instance national defense, public security, education, basic research, public transportation, public utilities, and other departments. For some departments, although their weakened ownership (using right) is divided, their external diseconomy will be greater than its marginal returns. For instance the environmental protection departments, medical departments, urban public facility

departments, and others. It is not suitable for these departments to be regulated and controlled by the market.

For further analysis, we can divide the region within which economic operation can be regulated and controlled by macroeconomic means into four sub-regions (or quadrants).

**Region I:** This region includes all departments and enterprises in which weakened ownership is centralized or relatively centralized, and all departments and enterprises in which price control cannot be relaxed. It is essential to have relatively centralized planned regulation and control on these departments. In China and within a certain time period, and apart from natural monopoly departments, these departments will include some resources and energy departments, military industrial departments, high-tech and sophisticated departments, and so on.

**Region IV:** The departments and enterprises in this region are those departments and enterprises in which product price control can be or can gradually be relaxed, and their weakened ownership can be divided. They can be regulated by the market in a relatively decentralized way. The price of their products can be set by the market, and the making of microscopic decisions can also be guided by the market.

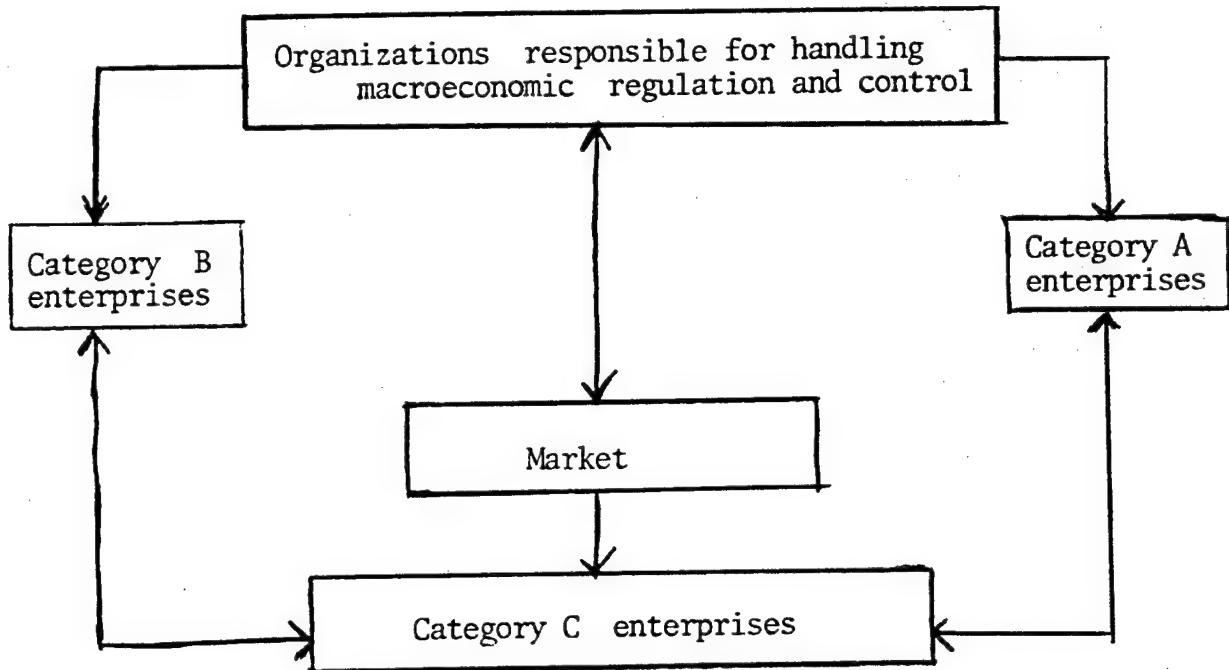
**Region II:** The departments and enterprises in this region are those in which weakened ownership can be divided, while the control on the price of their products cannot be relaxed immediately or within a certain time period. For instance, a substantial part of the planting industry, which perhaps includes the labor market, and so on. The means of market regulation and control, which are under the guidance of macroeconomic plans, can be adopted in these departments. That means the state departments responsible for handling macroeconomic regulation and control will regulate the market by mainly using the guidance price. At the same time, investment policy, industrial policy, and so on will also be used as supplementary interference and guidance. However, they will not directly interfere in the making of the economic decisions which are related to the microeconomic system.

**Region III:** Departments in this region are economic and industrial departments in which weakened ownership, which is determined by special economic and technological rules, is not suitable to be divided or can only be divided within a certain limit under the specific economic development conditions in China. With the development of the economy, the formation of the buyers' market, and the deepening of the price reform, the control on the price of products of these departments and industries, however, can be gradually relaxed or the price of these products will be brought close to international market price. For instance, the steel industry, the automobile industry, the petrochemical industry, the ocean shipping industry, the shipbuilding industry and

so on. With the deepening of the structural reform, this region will also include some departments supplying the means of production, such as funds, credits, and so on. The state will use the method of comprehensively combining planned regulation and control with market regulation and control to regulate and control the departments and industries in this region. At the same time, the state will draw support from the means of regulation and control of the organization of enterprise groups or joint enterprise bodies to transform the practice from one where the state will make decisions on planned targets into the practice where the market will guide the making of the decisions on targets.

According to the above division of the region, the key points of the operation of the "mixed model" can be summarized as follows (see the diagram below): Category A enterprises: Natural monopoly departments and public utility departments; and enterprises of some military industrial departments, high-tech departments, resources departments, and energy departments. Category B enterprises: Basic industries related to the overall situation of the national economy, and large-sized key enterprises and enterprise groups of leading industries. Category C enterprises: General enterprises.

1. The state organizations responsible for handling macroeconomic regulation and control will use direct mandatory planning means to regulate and control the category A enterprises in region I, and they will increase their influence on the market through this category of enterprises. They will also use limited planning means and policy means to regulate and control the category B enterprises in region III, and will regulate and control, and will interfere in the market through category B enterprises. The state organizations responsible for handling macroeconomic regulation and control will use various types of parameter to regulate and control the market and to guide category C enterprises.
2. Market regulation [tiao jie 6148 4634] will play an important role. The market in China is an imperfect market being regulated and controlled by state plans. When the market conveys guidance signals to various types of enterprises, it will at the same time convey feedback signals to organizations responsible for handling macroeconomic regulation and control to influence their decisionmaking behavior.
3. Category A enterprises and category B enterprises have become two channels through which the state organizations responsible for handling macroeconomic regulation and control can enhance their interference in the economy and the market. Category B enterprises include all types of centralized or pre-centralized enterprise organizations (such as enterprise groups, joint enterprise bodies, and so on), but do not include administrative companies. This category of enterprises will partially become the intermediary between the state and the market, and also the intermediary between the state and general enterprises (category C enterprises). The state will directly interfere in, regulate, and control



category B enterprises in three main aspects: (1) Assessing, selecting, and appointing of managers; (2) Establishing and cancellation of enterprises; and (3) Examining and approving important investment policies. At the same time, the state will, according to the specific situation, use some guidance plans in the form of "window guidance."

### III. The State, Enterprises and the Market in the "Mixed Model"

#### 1. The state.

The organization (the state) responsible for handling macroeconomic regulation and control has occupied an extremely important leading position in the "mixed model." It should bear its duties in mind and should undertake the task of guiding economic development. Practice has proved that it is impossible for the practice, which uses the excuse of developing the role of the market to allow the market to automatically regulate the economy, and has given up the guiding responsibility of the state, and the practice, which intends to use comprehensive administrative means to control the economy without taking into consideration the general situation, to guide the economy to develop in a healthy way.

In order to carry out its responsibilities and to fulfill its tasks, the organization responsible for handling macroeconomic regulation and control should have the following three qualifications:

(1) It should adopt a correct method to guide economic development, and should use this method to formulate corresponding long-term and medium-term development plans. This will be determined by the quality of the organization responsible for handling macroeconomic regulation and control itself, its understanding of the international and domestic economic and political environment, and its scientific capability in forecasting economic development. Obviously, a scientific decision-making mechanism and a democratic decision-making mechanism are required.

(2) The organization responsible for handling macroeconomic regulation and control should have a set of economic and industrial policies for implementing economic development plans. This set of policies should conform with the national situation in China and must be practical and feasible. The industrial policy adopted by Japan after the world war is different from the protective industrial policy adopted by Germany in the 19th Century for achieving the aim of overtaking Britain. The policy adopted by Japan covered a wide scope and was related to a greater degree to the economy of Japan. The industrial policy we are talking about is different from that adopted by Japan. It will not only be supplementary to market competition, will not only remedy the results brought by market failure, and will not only promote economic welfare, but will also play a role in implementing thoroughly the line of economic development and long-term and medium-term plans. In particular, it will play an important role in implementing

the comprehensive plans of regulation and control and market regulation and control, in promoting economic coordination among enterprise organizations, and in allocating resources.

(3) It should have a series of means and methods for thoroughly implementing the industrial policy, and other policies. Industrial policy and other policies will not only play a guiding role and they are not dispensable things. They should be thoroughly implemented through a complete system of means. This system should include: Financial means, monetary means, means of foreign trade, constraining means (such as constraints on the setting up and withdrawing of some industries, and so on), investment means, and administrative means which include consultation, coordination, persuasion, warning, illustration, administrative orders, and so on.

Apart from these, the organization responsible for handling macroeconomic regulation and control should also have certain mandatory plans to fulfill, but the plans should not cover an excessive number of targets and should not be broken down into too many detailed plans. Part of such plans, such as investment plans and the development plan of a particular area, can be implemented at the same time as the industrial policy is being implemented. The plan of the purchase and sale of large volume of products, which is related to the national livelihood, should match the production and operation plans of enterprises and the purchasing plan. In order to maintain the stability of these plans, they should be formulated in a rolling way. This is to avoid the phenomenon where the plans will have random effects on enterprises. Organizations responsible for handling macroeconomic regulation and control in general cannot directly interfere in the internal behavior of enterprises. However, they can set a norm through legislation, such as setting up labor laws, labor protection laws, equal trade laws, environmental laws, and other laws, to govern the internal behavior of enterprises.

## 2. Enterprises.

We have classified the enterprises in the "mixed model" into categories A, B, and C according to their position in the region within which they will be regulated and controlled. For whatever categories, the enterprises in this model should mainly be enterprises which have the status of a legal entity (according to the particular situation, some enterprises in category A can remain as administrative and undertaking enterprises).

The classification of the enterprises into three categories and the use of different methods of regulation and control to handle them are in fact determined by the natural characteristics or the technological and economic characteristics of the enterprises and which industries they belong. For instance, the economies of scale of enterprises, the degree of differentiation among the products of these enterprises, the obstacles to the entry and withdrawal of enterprises, and so on. In view of the horizontal cross section of the industrial structure of countries which have a modern market

economy, it is inevitable that some industries will be under a situation of natural monopoly, some industries will be under a situation of oligopoly and a situation of monopolistic competition, and some industries will be nearly under a situation of perfect competition. This is an industrial organization formation influenced by the objective laws of the development of a commodity economy. Of course, in analyzing from the angle of vertical cross section or from a dynamic angle, no industry will always be under the same situation. With the advancement of technology and the readjustment of the product mix, some natural monopolistic departments will be transformed into oligopolistic departments, or oligopolistic departments will be transformed into perfect competitive departments, or the other way round. However, this will not obstruct the establishment of the general guiding principle where different means of regulation and control will be used to handle enterprises that have different technological and economic characteristics. In viewing from this angle, it seems that the "mixed model" is developing into a "sectional model."

However, the key to the problem lies in the situation that different means of macroeconomic regulation and control can be used to handle the enterprises in categories A, B, and C. Apart from a small number of enterprises which are in the departments and industries under a natural monopolistic situation, all enterprises should be dynamic bodies which have their independent will and their own interests, and should be legal entities. All types of the means of regulation should be used through the dynamic role of enterprises themselves. Therefore, if we say that the greatest difference between the "mixed model" and the "organic model" lies in that the organizations responsible for handling macroeconomic regulation and control will regulate and control the market through direct regulation and control (this is not identical to direct administrative regulation and control, but can include administrative guidance) on some enterprises, then the saying that enterprises should have independent will will differentiate the "sectional model" from the "mixed model."

The formation of Category B enterprises and the role played by them have been best reflected by the characteristics of the "mixed model." Category B enterprises mainly refer to some centralized enterprise organizations (groups, joint companies, and so on) and pre-centralized organizations that have large-sized key enterprises as their nucleus. These centralized enterprise organizations include these several forms: (1) The form of vertical centralization using the input-output chain as the basic axis, such as large scale steel joint enterprises, petro-chemical enterprises, and so on. (2) The form of multi-angle horizontal centralization using the methods of mutual contracting, merging, and buying shares as the link. It will not be constrained by departments and industries, and can withstand market fluctuations and market changes. (3) The form of joint centralization taking a particular type of product as the leading head, and has professional division of labor. For instance a

large scale automobile assembly plant, various types of assembly plants related to it, and so on. It is obvious that this form of centralization will bring economies of scale and good learning effects. The form of pre-centralized organization refers to the enterprise groups which have loose organization. This includes the "serial group" formed by the combination between large companies and subsidiaries, the "contracting series" formed by the combination between outside processing and contracted purchasing, the "circulation series" formed by the combination between industrial and commercial bodies, the "information network series" formed by the exchanging of information, and so on. Since the enterprises in these forms of centralization can maintain their status as independent legal entities, and can to a certain extent enjoy the economic and technological benefits derived from combination and centralization of enterprises, they have very general implications.

The existence of category B enterprises has enabled the macroeconomic decisionmaking organizations to have another channel, apart from the method of regulating and controlling the market and guiding enterprises, to regulate and control the operation of the economy. That means through these organizations' interference on category B enterprises, which are limited in number, the influence of the organizations will be transmitted from the inside to the outside of joint enterprise bodies, and the target of bringing all enterprises under guidance, regulation, and control can eventually be achieved. At the same time, the organizations responsible for handling macroeconomic regulation and control themselves can also avoid the ineffective situation where they have to use administrative organizations, which have a large, complicated, and step-ladder structure, to directly regulate and control a large number of enterprises. With the deepening of the reform, we can consider canceling the administrative organizations, which are at a level similar to ministerial level and are under the control of the organizations responsible for handling macroeconomic regulation and control, and can replace them by several large-sized enterprise groups, which are individually listed in plans.<sup>6</sup> At the same time, some supervisory and coordinating organizations such as examination congresses can be established to coordinate the relationship among these enterprise groups, and to avoid the emergence of monopolistic behavior disadvantageous to economic development.

### 3. Market.

The market will still occupy a central position in the "mixed model." The development targets of the organizations responsible for handling macroeconomic regulation and control, and a considerable part of the targets of the industrial policy are to be mainly achieved through the operation of the market. Category A enterprises will rely on the market to get feedback information for readjusting their product mix and their industrial structure. At the same time that category B enterprises are being guided by the market, they will partially coordinate the relationship between themselves and other

enterprises through the operation of the market. Category C enterprises are basically under the control of the market. The market also plays an important role in conveying feedback information to the organizations responsible for handling macroeconomic regulation and control. In this way, the organizations responsible for handling macroeconomic regulation and control can be influenced by the information and can thus keep on correcting their decisions and keep on regulating and controlling orders and parameter variables.

However, a considerable part of the market in the "mixed model" is imperfect competitive market. This is not only reflected in the situation where the market itself is under the interference and guidance of the organizations responsible for handling macroeconomic regulation and control, but is also reflected in the phenomenon where it is being affected and is to a certain extent being regulated and controlled by category B enterprises. Price, which is the most important market parameter variable, has the following four forms: (1) The market price determined by the market; (2) The market coordinating price which is coordinated by category B enterprises and is under the supervision and examination of relevant state organizations; (3) The market guidance price guided by the state; and (4) The price fixed by the state.

According to the viewpoint of neoclassical welfare economics, under the situation of a perfect competitive market, only when all the control on price is relaxed and when the "invisible hand" is allowed to regulate the market, can long-term equilibrium and the Pareto's Optimal be achieved. At this time, marginal cost will be equal to the price, the super-normal profit will be zero, and the resources will be allocated in the most reasonable way. Therefore, many economists, including some reform theorists, have been taking the achievement of this situation or the reaching of a situation close to this as their ideal target. However, centralization and the monopolistic situation that results will always bring the danger that this type of equilibrium situation will be changed. Therefore, centralization has been considered as undesirable.

However, practice in China has proved that it is not desirable to achieve this type of ideal target. Moreover, there are also theoretical defects in the theories that we should not neglect. One of the defects is that the theories have described only one type of static equilibrium. China at present is under a situation where there are severe economic changes, continuous acceleration in the speed of technological progress, continuous changes in market demand, and continuous changes in the industrial structure and product mix. These are objective phenomena, and are also a trend that we should encourage. Therefore, a certain degree of centralization is desirable. This is because centralization can help enterprises to get rid of the disturbances brought about by market fluctuations, can be of help in technological progress, in developing new products and opening up new industrial areas, and can at the same time help enterprises to avoid waste of social resources caused by

an excessive degree of competition. Besides, the fixed price policy brought about by centralization is also of help in maintaining price stability.

People perhaps will ask this question: Will centralization and monopoly lead to a situation where some groups will get super-normal profit, and will this situation slow down economic growth and affect the welfare of most of the people in society? We should have seen that the imperfect competitive market in the "mixed model" is different from that in a capitalist economy; the imperfect competitive market in the "mixed model" is under the regulation and control of the state. In this model, the process, where the coordinated price is being set by the centralized organizations (category B enterprises), will be supervised and examined by the organizations representing the interests of the state and consumers. Apart from these, the behavior of centralized organizations will also be constrained by related laws and regulations. Moreover, the advantageous market position and the super-normal profit obtained by enterprises which have taken the lead to achieve technological progress, have entered new industrial realm, and have developed new products, are advantageous to the overall situation of economic development. This is because the enterprises that have been able to have renovation are those that have sound management. When they can obtain part of the super-normal profit, they will be motivated to speed up their research and development on new products or to expand their production scale.

Viewing from the perspective of a government, it is undoubtedly more effective for it to regulate and control an imperfect competitive market that is under the control of several centralized enterprise organizations, than to regulate and control a market which is in atomic form.

#### IV. The Objective Essentials in Choosing a "Mixed Model"

All choices are made within the scope set by objective conditions. The adoption of the "mixed model" in fact is a choice made under the situation where the model of regulation and control has to be transformed in accordance with China's special national situation, special economic development stage, special cultural background, and traditional system.

1. China is a socialist developing country with a large territory and huge population. At the same time it is also a country that has an extremely imbalanced economic development situation. Therefore, when the initial stage of industrialization has been completed and when an industrial system covering comprehensive sectors has been established, if the highly centralized traditional system is used to regulate and control the economy, then obstacles, which can hardly be removed, to the collection and grasping of information, and to the solving of the problems on transfer of labor and technological progress, and so on will be brought about. However, the present development stage of China and the contemporary political and economic environment have brought China to a

situation where it has to adopt an economic development strategy led by the state.

Generally speaking, and under socialist conditions, there are three targets the policy of economic regulation and control has to achieve: (1) To ensure long-term, sustained, and stable growth of the national economy, so as to satisfy the increasing material and cultural needs of the laboring people. (2) To ensure fair distribution and full employment. (3) To avoid economic fluctuations.

For China, a developing socialist country which has not yet gotten rid of poverty, the first priority is given to the target of ensuring sustained and stable economic growth. That means the most important variable in the objective function of China's economic development is sustained and stable economic development. It is different from other countries which have equilibrium as their first priority. For countries at the stage of "taking off" or the stage of "pre-taking off," growth will always be started in several departments which have important implications for the development of the national economy. Such growth will cause related industries to grow, and will then bring other departments to reach equilibrium at a new level of growth. Here, there are at least two aspects which will need interference from outside, and cannot rely only on the market itself for regulation. First is the choosing of and the inclination toward guiding industries; and second is the in-time and effective regulation in the growth process of equilibrium+isequilibrium[e]quilibrium. Such outside forces can only be brought about by the state. In modern history, nearly all of the lately developed industrial countries or developing countries have to rely on the state, which has acted as the leading force, to get a place in the rank of developed industrial countries. It is obvious that Japan has adopted an industrial policy whereby reliance has been put on the state and the state has been taken as the leading force to guide civilian-run enterprises, and to implement a strategy in favor of particular industries.<sup>7</sup> In fact, the enterprises have not only been guided by the industrial policy. A complete system of highly efficient organizations combining commerce with government has also been established to implement the industrial policy. Japan's worship of its king and its "group spirit" have made their "window guidance" more effective than the "administrative order" used by some countries which have a planned system. In this aspect, South Korea has done better than Japan. Some people called the economic system adopted by South Korea and Taiwan at the time when their economy was "taking off" an "autocratic development" system.<sup>8</sup>

Obviously, under the situation of modern economic development, when the development of the economy of a country is under the situation of "taking off" or "pre-taking off," it is essential for it to have and to maintain a regulation and control model, which can ensure the state to have effective means to regulate and control the economy in time, and to ensure that this model can match the process of economic development.

The key issues do not lie in the question of whether we want to have interference, and regulation and control or not, but on the question of whether this type of interference, and regulation and control can really and correctly guide the economy to develop in a smooth way.

2. The national situation of China has also decided that we should not use uniform methods to regulate and control all enterprises, and we should only use a method which can regulate enterprises in different ways and can achieve coordination among enterprises. The huge domestic market has made it possible and essential for China to establish various types of large-sized enterprise groups and joint enterprise bodies in accordance with the economies of scale. The existence of the dual structure has required us to adopt a form of regulation and control which can enable us to tolerate, support, develop, and constrain the large volume of medium- and small-sized enterprises and township and town enterprises. Under the guidance of the industrial policy implemented by the organizations responsible for handling macroeconomic regulation and control, and through competition and combination, centralized and precentralized enterprise organizations centering on several large-sized enterprises should be formed. Then, mutual communication channels or belts between the small number of large-sized enterprises and the large volume of medium- and small-sized enterprises should be established. Moreover, a goose situation [yanxing zhuangtai 7159 5887 3692 1966] of technological progress should be formed at the same time to avoid decrease in the speed of technological progress, and so on. This series of measures are reasonable methods that we can adopt, and these measures can exactly be found within the realm of the "mixed model."

The emphasis on the status of large-sized enterprises and the implications of enterprise centralization will always lead people to link these with monopoly. However, no matter what will people accuse these by using whatever theories, if a country does not have several strong large-sized enterprises in the world market, its economic status and competitive power will be greatly affected.

3. China implemented the transformation of models on the basis of the traditional system of centralized planned regulation and control. In order to achieve smooth transformation and to keep economic order under an orderly situation, we should enable this type of transformation to have relative continuity. On the contrary, if we implement complete reform of the existing model of regulation and control for the reasons of achieving "thorough implementation of theories," and "sensational results," and even only for realizing some viewpoints of the concept of value, set back the reform, economic fluctuations and sluggish development will be resulted. This in fact is an irrational choice. There are at least two aspects of the heritage of the traditional model that can become the foundation of the mixed model. First is that under the traditional system, we had a strong

and powerful organization responsible for handling macroeconomic regulation and control. Of course, a powerful organization does not equal a correct one. However, if the organization responsible for handling regulation and control is not powerful, it will bring no result even though it is a very correct one. Second, under the traditional system, a large number of large- and medium-sized key enterprises have been built. They will play a more significant role in the mixed model.

4. China has been deeply influenced by the Confucian culture. The idea of paying high respect to peasants and low respect to businessmen, and the practice of following old rules of the Confucian culture are important factors that have led to the situation where China has lagged behind the world's development trend in modern times. At the same time, it has also made China difficult, same as for some Western countries, in adopting the development model which allows the government to stay away from the market and economic development, and allows the "civilian-run enterprises" and the market to play the main role in regulating, controlling, and developing the economy. It is even more difficult for the traditional and cultural mentality of the people to accept the use of the method of developing a businessman class to eventually achieve the target of economic development and the target of transformation of models through these businessmen and part of the economic power controlled by them. However, Confucian culture places emphasis on the role of the state, and on the set of regulations and measures, which are for establishing an orderly regulation and control system. If these points can be used in an effective way, they can form a very strong motivating force for developing the economy, and can also form a strong national economic competitive force. This has been proved by the development of some countries and areas in the east Asian region. We can make the best use of the situation of reform and adopt the contents in the Chinese traditional culture which are advantageous to develop, regulate and control the economy, and to promote economic development.

In short, the national situation of China has shown that it is essential and possible for China to choose a "mixed model" of macroeconomic regulation and control that can provide enough space for the organizations responsible for handling macroeconomic regulation and control to regulate and control the operation of the economy, can provide external environment for various types of enterprise to develop their own dynamic role, and can provide advantageous conditions for the growth, maturity, and for giving play to the role of the market mechanism.

#### Footnotes

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#### Article on Urban-Rural Economic Relations

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[Article by Ding Jiaxin (0002 1367 2450) of Shenzhen City People's Government Joint Investigation and Research Office: "A Study of the Rationalization of Economic Relations between Cities and Rural Areas"]

#### [Text] I. Essence of Socialist Urban-Rural Economic Relations

1. Mutual reliance and support between cities and countryside. Formation of cities and towns first of all requires the solution of a precondition, that is, concerning surplus agricultural products. This is because the main body of cities and towns consists of people requiring consumption and cities and towns depend on the supply of surplus grain produced in the rural areas. It can thus be seen that the dependent nature of cities on the countryside was already in existence at the time of their formation. Moreover, cities and towns require the countryside to be the production areas of their raw materials and also the sales markets for their products. Following socioeconomic development, the economic relations between cities and countryside have become daily more extensive and intimate, and an important manifestation of this is that in the course of development of cities and towns they have ceaselessly coagulated and nurtured the growth of modern productive forces and guided and led the countryside in economic development. Socialist production relations have removed the hindrance of the

ownership system causing the opposing stand between the cities and the countryside and enabled socialist cities and towns, on the basis of reliance on the development of the rural areas and agriculture, to fully utilize their superiority in material resources, capital funds, technology and news and information to lead the rural economy to further development.

2. Unification of urban and rural economies. Rural economy is the foundation of urban economy and the national economy. It and urban economy jointly form the total body of the national economy. They are the two portions of the organic whole of the national economy. Meanwhile, urban and rural economic relations still need to be continuously coordinated and readjusted to realize the objective of unification of urban and rural economies. The objective character of the liaison and relationship between urban economy and rural economy demands the pair's balanced development and continuous regulation; and in addition, socialist countries also can, by means of economic, administrative, and legal measures, consciously carry out regulation and have this spontaneous process and these self-conscious acts combined. Unification of urban and rural economies is the end target and ideal mode of urban and rural economic relations.

The nucleus of the unification of urban and rural economies is the realization of unification of urban and rural industries. This necessarily requires abiding by the innate demand of economic reproduction's proportionate development relative to the industries and the rational allocation and distribution of the essential factors of urban and rural economies. Hence, this will be concretely manifested in the unification of the essential elements of urban and rural economies, that is, mutual exchanging of have's and have not's between cities and the countryside and realizing the rational movement and ameliorated combination of the essential economic elements.

#### II. Analysis of the Present Irrational Condition of China's urban and Rural Economic Relations

1. Manifestations of irrationality in China's urban and rural economic relations. Since the establishment of New China, urban and rural economic relations have gone through many fluctuations and several readjustments. Reform of the economic structure in the past 10 years has to a definite extent and within a definite scope eased the original pattern of urban and rural economic relations. However, the source and foundation of China's urban and rural economic relations has not been touched or moved at all. On the contrary, after a short period of economic prosperity, the economic development strategy again took the cities and industry as the major points and once again in the course of economic development caused various kinds of relations, particularly urban and rural economic relations, to fall into a state of incoordination. The original irrational pattern of "slanting toward the cities" not only was not rectified but also

showed the trend of becoming worse. This was principally manifested in the following:

A. Serious slanting to one side of investment structure. Investments in cities and towns and in industry continuously increased, but capital construction investments in the rural areas continuously declined. According to statistics, the proportion of agricultural investments in capital construction gross investments of the whole country were: 1960's, 16-20 percent, 1970's, 11-12 percent, but in the 1980's, gradually falling to 3-4 percent; on the other hand, in the 1980's the average annual increase in investments in light industry was over 8 percent, while the average annual increase in investments in heavy industry was over 12 percent. The 1979 investment in agriculture amounted to an absolute sum of 5.79 billion yuan but in 1987 it was only 4.21 billion yuan.<sup>1</sup> There were thus extremely abnormal and big differences in the investment structure. Simultaneously, the input in agricultural reproduction by collectives and the peasants also showed an obvious fall. Due to the slanting to one side of the urban and rural investments structure, constituent portions of urban and rural assets also showed differences. According to incomplete statistics, in 1985 the amount of fixed assets (not including land) of a productive nature directly utilized by rural labor was less than 200 billion yuan, and in the rural areas the per capita holding and use of fixed assets of a productive nature was 200-250 yuan, whereas in the cities the per capita holding and use of fixed assets (not including land) was at least 2,000 yuan. There was thus a difference of over 10 times between the two. This situation directly affected urban and rural production conditions and the labor productivity rate. Thus, in 1986 in every 100 yuan of industrial output value the state investment was 4.76 yuan, whereas in every 100 yuan of agricultural output value the state investment was only 0.87 yuan, and the ratio of state input in the output value of industry and agriculture and a simultaneous continuous increase in the demand for agricultural products, the result was an over utilization of agricultural resources and insufficient stamina in agricultural development.

B. Slanting of financial expenditures to cities and towns and to industry and decline in financial funds for supporting agriculture. From 1978 to 1985, the state's financial expenditures increased from 111.1 billion yuan to 184.4 billion yuan, an increase of 65.9 percent. Concurrently, financial funds for supporting agriculture grew only from 15 billion yuan to 15.3 billion yuan. The ratio of funds for supporting agriculture in the financial expenditures dropped from 13.6 percent to 8.3 percent and financial funds for supporting agriculture did not follow the increase in financial receipts to make any appropriate increase.<sup>2</sup> On the other hand, the commodity subsidies enforced by state finance to residents in cities and towns steadily increased year by year, but the subsidies to means of production for agriculture decreased yearly. The proportion occupied by commodity subsidies to residents in cities and towns of the

gross amount of commodity subsidies (not including subsidies to grain, cotton, sugar, chemical fertilizer, and farm medicine in foreign trade imports) rose from 69.93 percent in 1978 to 97.52 percent in 1984, whereas the proportion occupied by subsidies to means of production for agriculture dropped from 30.07 percent to 2.48 percent in the same period.<sup>3</sup>

C. Renewed widening of the "scissors" differential between the prices of industrial and agricultural products. In 1979, there was a large-scale rise in the prices of agricultural products. This promoted and elevated the exchange status of the prolonged price-stagnated agricultural products with industrial products. After 1988, the rising trend of prices of agricultural products slowed down, while there was a rather large-scale rise in the prices of industrial products: if the purchase price index of agricultural products in 1978 was taken to be 100, then in 1985 the index was 166.8, an average annual increase of 9.54; if the 1983 prices were taken to be 100, then by 1985 the index was 108.6, averaging an annual increase of 4.3. Regarding the retail sales price index of industrial products in the rural areas, if the 1978 prices were taken to be 100, then in 1985 the price index was 112.4, averaging an annual rise of 1.77; if the prices in 1983 were taken to be 100, in 1985 the price index was 128, averaging a rise of 14.

2. The stiff character of the irrational urban-rural economic relations. China's national conditions and the peculiar dual social structure determine China's special dual economic structure and the stiffness of urban-rural economic relations. Take the circulation of labor for example: The employment opportunities offered by urban industrial development for a relatively prolonged period still could not satisfy the demand of the growth in the employment-seeking population in the cities and towns themselves, while in the rural areas the limited demand for labor and the large supply of labor formed a pair of contradictions with the above. From 1979 to 1987, despite China's industry maintaining a high-speed growth rate of 12 percent a year, there were about 90 million peasants going into the nonagricultural sector and yet, because in the past 30 years the "slanting" type of development had caused an overabundance of surplus labor internally in agriculture, the absolute rural agricultural labor force in 1987 still showed an increase of 33.5 million people over 1978.<sup>4</sup> At the same time, due to the rather large disparity in labor productivity rate between China's industry and agriculture, and under the distorted conditions in the prices of industrial and agricultural products, the disparity in the relative benefits of industry and agriculture became extremely obvious. As a result, town and township enterprises, particularly rural industry, developed rapidly.

Rural industry has not become the economic link between urban industry and traditional agriculture but has existed as a container of the discrepancies between urban and rural interests. Different from the pattern of industrial cycling in urban industry of—"agricultural products low in price—low wages in industry—low cost

of raw materials—high profits,” rural industry directly depends on a cheap rural labor force, that is, realizing industrial production cycling through the pattern of “low wages costs—high profits,” and due to the distorted price structure unduly raising the comparative interests of the processing industry, rural industry has been made to participate more in the processing industry, thus producing the trend of the same structuring as urban industry. According to analysis, in 1984 in the rural areas the output value structure of industry, communications and transport, construction industry, and tertiary industry had a similarity coefficient of 0.998 with the output value of the state-run and four large urban departments, and the similarity coefficient of 14 industries and trades inside rural industry with the value output structure of 14 industries and trades in urban industry was also as high as 0.721<sup>5</sup> According to another set of statistics, of China’s township and town enterprises in 1986, industries like machine-building, metallurgy, electric power, petrochemicals coal, and cement made up 61 percent, whereas industries using agricultural and sideline products as raw materials, such as the food industry, textiles, and feed and leather industries occupied only 23.4 percent.<sup>6</sup> The structure of this sort of product inevitably involves competition for raw materials, energy, and markets between the rural and urban industries, but due to the scale of township and town enterprises being small and narrow, equipment being antiquated, and technology being out of date, they usually meet with setbacks or are even eliminated. Hence, township and town enterprises have not hurt the foundation of the traditional urban and rural economic structure. Precisely the contrary, they have acted in the capacity of part of the rural economy and have maintained the original urban-rural economic relations.

3. Causes of irrational urban-rural economic relations. In the initial period of socialist construction, we were too anxious to accelerate the speed of economic development; we strived for realization of industrialization, one-sidedly emphasized that “without industry it is impossible to become wealthy,” but forgot that “without agriculture, instability would develop”; under the conditions of input into agriculture and particularly input into agricultural basic facilities requiring several years or several decades to achieve results, we not only did not actively support agriculture, but also continuously depended on agriculture to provide accumulation for nonagricultural activities, including, since the founding of the republic, making agriculture contribute several hundred billion yuan of funds to build the foundation for industrialization. The sustained development of such a situation has led to agriculture itself becoming passive and restricting the development of the national economy.

The above-mentioned method of treating urban-rural industrial and agricultural development relations has directly led to the results in recent years of the accumulation rate tending to be high, the ratio of accumulation used on industry tending to be too high, and, in industrial investments, the proportion on heavy industry

tending to be too high. This has caused the deformed development of heavy industry and particularly the heavy processing industry, severed the link between the urban and rural economies, and brought about a serious imbalance in urban and rural economic relations and particularly in the urban and rural industrial structures. The usual law in the evolution of industrial structure is: agriculture—light industry—basic industry—heavy processing and packaging industry, but in China after the founding of the republic a leap was made to the development stage of taking light industry and basic industry as the lead, thus forming a greatly incoordinated industrial structure. After 1985, this sort of deformed industrial structure not only was not rectified but became more serious. Agriculture was in a state of stagnation and hesitancy, industry experienced sustained high-speed development. Between the two large departments of industry and agriculture and plantation the discrepancy in their growth speed was suddenly and greatly widened. At the same time investment in industry for agricultural use has all along been overlooked and the industries supporting agriculture are in a state of depression. Development of the two large estates of industry and agriculture has shown new noncoordination and urban and rural economic relations have been forced to fall into a more irrational state.

### III. Strategic Choice for Rationalization of China’s Urban and Rural Economic Relations

1. Guiding ideas for readjusting urban and rural economic relations. In the last analysis, urban and rural economic relations are a sort of exchange relations. Exchange at equal value is the basic principle in commodity economy. Under the conditions of a socialist commodity economy, urban and rural economic relations should follow the objective laws governing development of commodity economy and be gradually established on the structure of a planned commodity economy. This is the general guiding idea on readjusting urban and rural economic relations. Concretely speaking, in respect of agriculture, it is necessary to clarify agriculture as the basic thought in urban economy and the national economy, and even in the course of the current improvement of the economic environment and rectification of the economic order, we must, around the themes of improving and increasing effective supply, particularly the effective supply of agricultural and sideline products, put and raise the status of agriculture to a rational level; on the side of the cities and towns, it is still necessary to clarify the leading position of cities and towns in the national economy and fully display the economic functions of the urban areas. It is necessary to utilize the attracting power and radiating power of cities and towns vis-a-vis the surrounding areas and rural villages to display their superiority in economy, science and technology, finance and currency, circulation, news and information, and culture. In particular, cities should rely on the theme “developing agriculture with science and technology” and take the lead in developing the economy in the adjacent areas and rural villages.

2. Strategic measures in readjusting urban and rural economic relations. First, we should gradually rectify the phenomenon of investments "slanting to the cities and towns," and, according to the innate demand of industrial coordination and development of the national economy, rationally determine the ratio of urban and rural investments so that the urban and rural industrial structure will tend to become rational. At the moment, on the one hand, we must continue to depress the scale of capital construction, slow down the industrial development speed of sectors originally of low technological level and low effects which have depended on state investments to increase the standing volume of their industrial assets, cut down the rapidly expanding non-productive investments, reduce the pressure on basic estates such as agriculture and others, and make the allocation of resources be based on the guidelines of developing the basic industries and effecting effective supply. At the same time, we should control the nonproductive input of investment funds outside the budget; and regarding local self-raised funds and outside-budget projects, they should be sternly grasped by means of strict industrial and trade regulations. Blindly starting projects and redundant construction should be prevented. Funds saved by depressing the scale of capital construction should be used on speeding up the development of the basic industries. On the other hand, we should actively adopt a support-agriculture policy, increase the state's input into agriculture, and restrain the state of rural deposit funds flowing out of the rural areas. We should strive for internal input into agriculture, particularly input into agriculture by agricultural groups and individual peasants so as to set up a rural self-accumulation and investment mechanism, and continue the enforcement of the preference policy of low taxation and cut down such forms of extra-tax burden on agriculture such as funds-raising, imposing levies, and arbitrarily taking away retentions of farm units or peasants. A protective policy on prices of agricultural products should be enforced and the coordinated development of agriculture and industry should be accelerated soonest.

Second, Rationally readjusting the distribution and spread of industrial productive forces and fully displaying the role of large-scale industry to make it become the effective promotional force for the union of urban and rural areas. This will demand proximity to the raw materials production areas on the part of industry, particularly the processing industry of agricultural and sideline products and other industrial enterprises directly related to agriculture, changing the past tendency of industry being overcentralized in large cities and towns and improving the product structure of the rural industries so that the geographical distribution of urban and rural industries will gradually become rational. Cities and towns are containing bodies of large industries. In the course of dispersing the industrial productive forces, it is also necessary to set up a rational urban system of an economic network of cities, towns, and rural villages with cities as the centers. This is for the

purpose of ensuring the rational distribution and spread of the industrial productive forces and realizing the smooth flow and circulation of the essential elements of urban and rural economy.

Third, be it the readjustment of the urban and rural industrial structure or the rationalization of the geographical distribution of industries, all depends on fully displaying the economic functions of cities and towns and the gradual establishment and improvement of a united urban and rural market system. First of all, the various markets for essential elements must be rational in structure and complete in functions. Second, based on the special features of a united urban and rural market, in the space structure it is still necessary to continuously coordinate and improve the district urban and rural market system. A perfect urban and rural market system not only must smooth out the channels in the circulation area, form a commodity circulation network which reaches all sides, and ensure prosperity of the urban and rural markets, but also must utilize the market mechanism and all necessary administrative and legal measure to regulate the production and operational activities of the enterprises so as to gradually coordinate the urban and rural industrial structures. In the course of formation of the urban and rural united market system, smoothing out the comparative prices of the industrial products, reducing or removing the "scissors differential" between industrial and agricultural products, all constitute conditions that should not be overlooked.

Fourth, let us break the walls separating the urban and rural areas, eliminate the urban-rural dual structure, and realize the unification of urban and rural economy to the end that urban economy and rural economy may develop in a sustained, stable, balanced, and coordinated manner.

#### Footnotes

1. See article "Emerging From Hesitancy in Agriculture," by Zhao Huawai (6392 5478 5153) and Zhou Yichang (6719 6318 2512), LIAOWANG No 47, 1988.
2. Based on relevant data from the 1986 China Statistical Yearbook for computation.
3. See article "Urban-Rural Distribution Pattern and Urban-Rural Economic Relations," by He Xiaodong (6320 2556 2635), ZHONGGUO NONGCUN JINGJI No 3, 1988; unless otherwise mentioned, figures quoted below are from this source.
4. See article "Macroeconomic Considerations in Readjustment: the Agricultural Problem," by Wang Jian (3769 1696), in CHINA: DEVELOPMENT AND REFORM No 3, 1989.
5. "New Growth Stage of National Economy and Rural Development," by "Research Group on China's Rural Development Problems," Zhejiang People's Publishing House, 1987 edition, p 75.

6. See "Several Problems Related to Rationalization of Urban Economic Structure," by Jiang Huai (3068 3232), CHENGSHI WENTI No 1, 1988.

### Medium-, Long-term Economic Growth Viewed

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[Article by Chen Xiusheng (4453 4423 3932), Zheng Jingsheng (6774 2529 0524), Chen Yue (7115 6390) and Huang Xu (7806 2485) of the Economic, Technological and Social Development Research Centre of the State Council: "A Preliminary Study of China's Medium and Long Term Economic Growth"]

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#### I. Historial Review of China's Economic Development

Reviewing events in China's socialist construction since the founding of the Republic, we see that during periods of prosperity the growth rate was relatively rapid, important proportionate relationships were relatively coordinated, and people received many actual benefits; but there were also periods of decline in which large difficulties and setbacks were met, resulting in economic development suffering serious interference and disruption. Hence, it is exceedingly important to sum up historical experiences, probe into the laws and trend of our country's economic development, analyze the principal motive power and causes of economic growth, and look for a road to medium and long-term stable economic growth.

##### 1. Tilting and balancing—an analysis of the road to economic development.

As a low-income nation, economic development in our country is on the one hand, the process of the continuous enhancement of the level of productive forces; and on the other hand, the process of the ceaseless evolution and improvement of the industrial structure, that is, the continual growth and expansion of modern industries and steady decline in the relative weight of traditional industrial departments. Hence, adoption of the development form using a suitable degree of slanting to one side, that is, facilitating certain leading industrial departments to take the lead in growth and thereby to lead the growth of other departments, is undoubtedly necessary. Only by so doing will it be possible to speedily raise the social productivity rate, and extricate ourselves from the cycle of economic low-levels. However, a balanced development is the innate demand of the development of the national economy; excessive slanting toward one side surpassing the necessary limits, will lead to the maladjustment of the important proportionate relationship of the national economy, and it will be difficult to maintain the growth rate. Since the founding of the Republic, our economy has followed the road of progress in uneven

steps. Of the five large departments, industry is in the grade of high speed growth. Its growth rate is over 150 percent of the growth rate of the national economy, and the growth of its net assets value makes up over 50 percent the new increase in the national income. Agriculture is found in the grade of low-speed development, its growth rate is only 50 percent of the national economy. As for its special features, in general there have been three stages:

First stage. The period after the founding of the PRC to the conclusion of the First 5-Year Plan, was one of forced slanting growth of the economy. Following the three-year economic recovery period, the state concentrated its financial and material power on carrying out industrialization and construction, gave priority to developing the basic industries, and formed the initial framework for our country's industrialization. The rapid development of industry led to the growth of the entire national economy, improved the people's standard of living, and formed a growth pattern with the co-existence of high speed and high benefits. Backward but considerably ponderous agriculture provided sufficient raw materials, funds and market for the super-development of industry, enabling industry and improvement of the national economic structure to go abreast without conflicting each other; instead it promoted and facilitated each other's development, forming a benign cycle for the national economy, and achieving good economic effects.

Second stage. The late 1950's to 1970's was a period of growth for the forced slanting to one side of the economy. During this period, slanting with industry as the leading factor continued to be enforced and achieved definite results. However, the force of resistance and difficulties were growing daily. These difficulties came from several large errors in economic decision making, which brought needless losses to the national economy. However, in the main, they came from the innate contradictions in the development form of the slanting: (1) Growth of slanting speeded up the demand for funds; very soon the state's capacity of accumulation was exceeded and the gap in funds continuously expanded; (2) The employment opportunities offered by industrial development lagged behind the growth in the labor force, and unemployment increased continuously; (3) Under the level of the productive forces at that time, the relative shrinkage in the comparative weight of agriculture reached the "limit,"—pulled by the social demand of agricultural products and pushed by the inevitable increase in the peasants' consumption, the growth speed in the actual income of agriculture could not drop to below three percent; while the prolonged, stagnated growth of agriculture led to a relative rise in the comparative prices of agricultural products. According to estimates, from the later part of the 1950's to the 1970's, in the growth of the actual income of agriculture, the portion coming from agriculture's production-increase amounted to 46 percent, while the portion coming from changes in the comparative price relations between industrial and agricultural products amounted to 54

percent; which exerted a heavy pressure on the super-development of industry. Under the restriction of the above-mentioned three types of contradictions, the slanting development can only depend on noneconomic forces for compulsory enforcement, while the continuous accumulations of these contradictions will naturally lead to periodical changes in the form of development.

Third stage. From the Third Plenary Session of the 11th CPC Central Committee to the conclusion of the Sixth 5-Year Plan, was the period of growth of a "compensation" nature (slanting). In this period, due to enforcement of the economic development strategy of internal invigoration and opening up to the outside world, the national economy attained extraordinary growth which astounded people worldwide; the people obtained even more actual benefits and it was another period of prosperity in our country's economy following that of the First 5-Year Plan. The principal features of the economic development were: The trend of the changes in the principal proportionate coefficients differed entirely from the past and carried an obvious "compensatory" nature: (1) Development of the three large industries, or estates, of the national economy displayed a new pattern of "two fast and one slow." The development of the premier and tertiary industry showed an obvious increase in speed and their relative weight rose. The development speed of the secondary industry dropped relatively and its relative weight fell. In the secondary industry, the growth speed of heavy industry was obviously slower than that of light industry. (2) The rise in the income of the individuals was speeded up greatly its relative weight in the national income was continuously rising, and inflation appeared in the residents' income. (3) Growth in the accumulations of a nonproductive nature surpassed that of accumulations of a productive nature, while construction of a productive nature dropped in proportion. This development pattern, different from the ordinary, effectively set loose the economic hidden potentials which had been restricted by the maladjusted economic structure and the ossified system; enabled the national economy to grow rapidly; and improved the people's standard of living. But it is worthwhile to point out that the success of the development form of a compensatory nature did not once and for all solve the problem of selecting the road to the development of our country's economy. Its success appeared on the precondition of maladjustment of the structure and with improvement in the economic structure, and its rational nature would be gradually lost and new conditions would arise. First, following the termination of the release of the hidden potentials of a cumulative nature in agricultural production, agriculture, particularly the plantation trade, displayed a new state of hesitancy in production, the supply-demand contradictions in agricultural goods rose again,

becoming an important contradiction hindering economic development. Next, the relative fall in industrial production, particularly that of heavy industry, led to an insufficient supply of raw materials, energy, and in transportation capacity; again next, the rapid increase in the residents' income relatively dwindled the leeway for increase in productive investment and also caused the appearance of currency inflation. These conditions indicate that the historical mission of the growth form of a compensatory character has been fulfilled, that we are currently facing the three big tasks of pushing agriculture to shift in the direction of modernization, overcoming short-line restrictions and preventing currency inflation, and that we are also facing a periodical change in economic development.

## 2. Stability and fluctuation—an analysis of the periodicity of economic development.

The growth of our economy takes place in the course of relatively large fluctuations. These fluctuations were usually manifested in the periodical rise and fall in the growth rate of the various volume targets such as social gross output value, national income, fixed assets investment and so forth. Under extreme conditions they are also manifested in the large fall and rise in the gross volume of the national economy and the appearance of a negative growth rate. In order to analyze the economic fluctuations of our country, we may introduce two criteria for measuring the intensity of the economic fluctuations. One is the fluctuation coefficient (computed according to the standard differential of the annual growth rate) for use in measuring the average disparity between the growth rate of the various years and the average annual growth rate. The other is the extent of the fluctuations, that is, within a given period the disparity between the peak and the base.

Actual conditions show that since the founding of the PRC, our country has gone through seven periodical fluctuations. Their basic features were: (1) The fluctuation period was usually five years; (2) The fluctuation intensity was rather high and the fluctuation extent and coefficient of instability were higher by over 100 percent over such other countries as the U.S.A., Soviet Union and Japan; and (3) The fluctuation extent displayed the trend of being high at first, low next, and gradually slowing down.

Probing the problem of the source of the economic fluctuations requires starting from the layer of gross volume and going deep into the interior of the system. Seen from the utilization side of the national income, fluctuations in accumulation far exceed fluctuations in consumption. The coefficient of the former is 500 percent more than that of the latter (see table 1). Despite that, the accumulation volume is only around 30 percent of the national income, yet the fluctuations coming from the accumulations account for over 70 percent of the fluctuations of the national income.

**Table 1. Fluctuation Coefficients (1953-1985) Unit: percent**

Use-amount of National Income	Consumption Amount	Accumulation Amount	Gross amount of Investment in Fixed Assets
9.2	5.4	30.1	30.8

**Table 2. Fluctuation Coefficients of Various Industries and Trades (1953-1985) Percent**

Social gross output value	Building Industry	Industry	Heavy Industry	Machine Building Industry	Transportation Industry	Commerce	Agriculture
11.75	26.0	16.5	22.5	27.9	15.6	8.3	6.5

Inside industry, the fluctuation intensity of heavy industry exceeds that of light industry while inside heavy industry, the fluctuation intensity of machine-building industry exceeds that of the extractive industry and the raw materials industry.

The above analysis of the fluctuation intensity shows that the main dissemination road of the fluctuations in our country's economy are: Fluctuations in gross demand are centrally manifested in investment fluctuations, while fluctuations in investment demand directly lead to fluctuations in the building industry and the machine-building industry, and further lead to fluctuations in heavy industry and light industry, eventually leading to fluctuations in the national income. In turn, fluctuations in the national income lead to changes in gross demand and thereby the next period of the fluctuating cycle begins.

Social gross demand includes two portions, these being investment and consumption demand. Our country is a low-income one. The people's living is at the stage of being dressed warmly and eating to the fill. Consumption outlay mainly consists of purchasing the basic means of living for eating, dressing, and using. Consumption demand rises easily but drops with difficulty, and possesses an extreme strong stiffness. Supply of consumer goods suffers mainly from the restrictions of agricultural production, which is difficult to increase to large extent in a short period. Under such conditions, the residents' consumption level can only be manifested in stable growth and fluctuations in social gross demand are centrally manifested in fluctuations in investment demand. As a matter of fact, expansion in social gross demand principally implies a large increase in investment, whereas reduction in social gross demand principally implies a large-scale reduction in investment. Hence, small rises and falls in the growth rate of national income lead to large-scale rises and falls in the growth rate of investment. From Table 1 it can be seen that for each percent of fluctuation in national income, investment fluctuation will exceed three percent.

Economic fluctuations in countries with a market economy are caused by insufficient demand, whereas fluctuations in our country's economy are mainly caused

Seen from the national economic production, the order from high to low of the fluctuation intensities of the five large production departments is as follows: Building industry, industry, communications and transportation trade, commerce and agriculture. Of them, the fluctuation intensities of the building industry and industry are the largest (see Table 2):

by supply shortage resulting from excessive demand. In our country, a rise in social gross demand does not need artificial stimulation; due to the extensive existence of "expansionist driving force" and "hunger for investment" whenever there is the possibility, investment demand will lead to the speedy increase in social gross demand, will enlarge the gap between supply and demand, continuously expand the shortage phenomenon, and cause the daily aggravation of the bottleneck-like restraint of the growth of the economy. For this reason, economic expansion cannot be maintained for long. After several years of economic prosperity, another round of readjustment is needed, investments will have to be reduced, demand will be depressed, the growth speed will be slowed down, and thereby the stage of expansion will enter into economic recession. However, once the economic condition turns for the better and the supply-demand contradictions are eased off, hunger for investment will once again lead to economic expansion and thus economic growth will be in a state of alternate expansion and depression. These are, under the conditions of a planned economy, the innate causes of economic periodical fluctuations.

Interferences from noneconomic factors are the external causes of economic fluctuations in our country. History has shown that periods of large rises and falls, and violent reverberations in the economy almost always followed fluctuations in political and economic life. The Great Leap Forward in 1958 and the three years' readjustment that followed caused the national economy to rise and fall drastically, and the span of the fluctuations amounted to 66 percent; in the initial period of the Great Cultural Revolution, the "stop production movement for the sake of the revolution" led directly to the negative growth rate in the economy from 1967 to 1968. In the other periods, man-made traces of economic fluctuations can easily be found.

Precisely because these external man-made factors greatly enlarge the innate fluctuations in the economic system, the economic fluctuations in our country were higher than those in countries with a planned economy, and also greatly higher than those of countries with a market economy (see Table 3). If the actual fluctuation intensity is taken as the upper limit of the innate cause of

fluctuations, then it may be said that in our country's economic fluctuations, the influence of internal causes is

one-third or below, and the influence of external causes is over two-thirds.

Table 3. Comparison of Fluctuation Coefficients (Percent)

China	Soviet Union	Japan	West Germany	U.S.A.	France	Britain
11.75	2.93	4.2	3.42	2.71	2.29	2.3

It can be seen from Table 3 that under conditions of similarity in the economic systems, in countries of fairly strong economic vitality and rather fast economic development, the fluctuation intensity cannot but be large, but the disparity between the countries is very small. On the other hand, violent economic fluctuations have obviously not been beneficial to the healthy development of our country's economy. Figures in Table 4 show: In periods of a large fluctuation span, the average growth rate tends to be low, whereas in periods of a small fluctuation span, the average growth rate is generally rather high. Therefore, we must take note to avoid and dispel the erroneous interferences of noneconomic factors in economic development, improve macroeconomic adjustment and control, and limit economic fluctuations within a rational scope. This is the necessary precondition for pushing the healthy development and effective growth of the economy.

the national economy, to structural maladjustment, large rises and falls in the economy, and delay in the growth of the economy. It can be seen that in estimating the objective possibility of China's medium and long term economic growth, it is extremely necessary to carry out a quantitative analysis of the medium and long-term economic development.

#### 1. Calculation of the economic growth speed.

Actual practices have shown that our country's economic growth speed, under the condition of exclusion of the noneconomic factors, is determined by the intensity of the short-line restriction. Manifestation of short-line restriction is in two forms: one is financial restriction, principally manifested in financial capability; the other is material restriction, manifested principally in the ability of supply of materials. In view of the fact that in our country the process of economic monetarization has not yet been completed and the existence of obvious structural contradictions between supply and demand, it is necessary to separately analyze the two:

#### (1) Financial analysis.

Making an analysis from the angle of financial strength, economic growth is determined by the size of the investments and the high or low performance of the investment benefits. In low-income countries, manpower is relatively plentiful and capital thus becomes the principal factor governing the fast or slow speed of investment. Conditions in our country are no exception. According to calculation by statistical figures, from 1954 to 1985, the related degree between the index of the annual growth in the amount of accumulations and the index of the annual growth in national income is rather high (the adjudged coefficient of R3 equals 0.9675. T and D-W tests can both pass). This illustrates that we can, through the analysis of accumulations, examine the potential strength of growth of the national economy.

The source of accumulation is the national income. The size of the gross amount of accumulations is determined by the size of the gross amount of national income, and the high or low accumulation rate. Under the conditions of the gross amount of national income having been fixed, raising the accumulation rate can increase the gross amount of accumulations, but the accumulation rate cannot be increased without limit. It is restricted by at least two factors: One is the growth of the consumption amount the lower limit of which is determined by the growth speed of the population, and the growth speed necessarily required by the consumption level; and this

Table 4. Economic Growth and Span of Fluctuations

Period	Years	Fluctuation Span in Period	Annual Average Growth Rate in Social Gross Output Value (Percent)
1	1953-1957	12.6	11.3
2	1958-1962	66.2	-0.4
3	1963-1968	28.9	7.5
4	1969-1972	20.9	15.7
5	1973-1976	10.1	5.7
6	1977-1981	8.5	8.9
7	1982-1986	7.4	12.0
—	1953-1986	—	8.4

## II. Selection of Strategic Targets for Economic Growth

Economic growth is the central problem in economic development. In order to eradicate poverty and economically to catch up with, and surpass, the developed countries, countries behind must, for a rather prolonged period, maintain an economic growth rate surpassing the developed countries. Actual practice in our country has shown that without an appropriate growth speed there is no way to satisfy the continuously increasing demands of the 1.1 billion people in their material and cultural life, nor to accumulate more financial power, material power, and carry out expanded re-production. However, deviating from the possibility of the national strength and seeking a growth rate which objectively is impossible, will inevitably lead to imbalance in the gross volumes of

restriction also determines the upper limit of the accumulation amount; the other is the restriction caused by the investment effect. Excessive accumulation may contrarily cause deterioration of the investment effect and lower the growth speed. From 1953 to 1985, for five years the growth of the accumulation amount exceeded the growth of the national income; and for four years the accumulation amount increased but the national income dropped. According to computation made by the World Bank and figures from our own experiences, the accumulation rate should preferably be generally 25 to 30 percent. But because our economy has long been unable to depart from the state of gross demand surpassing gross supply, maintaining a slightly high accumulation rate is of utmost importance.

Under the conditions of financial strength having been fixed, the fast or slow speed of economic growth is

determined by changes in the investment structure and the investment benefits, that is the high or low capital coefficient. Raising the capital coefficient suffers from the influences of the prices of the means of production, and the relevant salaries and wages of the staff members and workers (capital construction cost). Generally speaking, changes in the direction of investment can also lead to changes in the capital coefficient. As of today when the social average profit rate of investment has not yet been formed, investment direction is frequently determined by the government's subjective selection. Hence, formation of an industrial policy conforming with objective reality can enable capital coefficient to maintain a relative stability. In view of the fact that rather large fluctuations have occurred in our country's economic development, when fixing the capital coefficient, use of the weighted average method in calculation reveals that the average value of the capital coefficient from 1953 to 1985 was 4.4 (see Table 5)

Table 5. Capital Coefficients of Different Periods

First 5-Year Plan	Second 5-Year Plan	1963-1965	Third 5-Year Plan	Fourth 5-Year Plan	Fifth 5-Year Plan	Sixth 5-Year Plan	1953-1985
3.0	-12.3	1.8	3.2	6.3	5.7	3.3	4.4

Computing on the basis of the accumulation rate being 25 to 30 percent and the capital output rate being 3.1 to 4.4, it is found that the upper limit of the growth rate of national income was 9.7 percent and the lower limit was 5.7 percent.

(2) Analysis of the material strength seen from the medium and long-term periods, the economic growth of any nation suffers from the restriction of the growth speed of the "bottleneck" industries. In the case of the energy, steel materials, timber, cement and communications industries and trades, the demand for capital funds is large, the construction period is long, the investment effects are slow; they are the "bottleneck" industries and trades restricting our country's economic growth.

Based on the above-mentioned growth speed of national income, let us make an estimate of the short-line demand in 1995. Calculated on constant prices, in 1985 each one hundred million yuan of national income consumed 158,200 tons of energy, 11,500 tons of steel materials, 31,000 tons of cement and 13,000 cubic metres of timber. When the elastic coefficients of the growth of these four categories of products relative to the growth of the national income were respectively 0.5, 1, 1, and 0.5 and the average annual growth of national income was 5.7 to 9.7 percent, the volume of the demand for these principal raw materials may be estimated to be: energy, 1.04735 billion tons to 1.34658 billion tons, steel materials, 96.71 million to 140.22 million tons, cement, 260.70 million to 377.98 million tons and timber 85.58 million to 101.02 million cubic metres. Obviously, there is no possibility of reaching the upper limit of these four categories of products and there will be even great difficulties in reaching their lower limits, in fact what can be reached is somewhere above 20 million tons of

imported steel materials a year and a yearly import of something over 10 million cubic metres of timber. Hence, although the investment capability can ensure the growth speed of the national income to reach 5.7 to 9.7 percent, the short-line industries can only ensure this speed to reach around 6 percent.

The foregoing conditions show that due to the short-line restrictions, it has been difficult to fully display the potentials of the growth of the national economy. This state of affairs already appeared at the later stage of the Sixth 5-Year Plan period. After the Third Plenary Session of the 11th CPC Central Committee, in order to improve the people's standard of living, the state implemented the guideline of six priorities for light industry and appropriately increased investment in light and territory industry. In the gross volume of capital construction investments, the relative weight of investments in heavy industry dropped by 7.4 percent compared with the Fifth 5-Year Plan period. At the same time, the relative weight of the gross amount of investments in agriculture, light industry and heavy industry, in the gross volume of capital construction investments also dropped by 7.4 percent. This sort of changes in the investment structure made the above-mentioned growth speed of the short-line industries, relative to the growth speed of the national income, change from being "advanced" to being "stagnant." For example, from 1968 to 1978, energy's elastic coefficient relative to the growth of the national income had been 1.72, but by 1979 to 1985 its elastic coefficient was only 0.52. This state of affairs caused a continuous increase in the intensity of the restrictions from the short-line industries in recent years. Now each year around 20 million tons of steel materials must be imported, but can still not satisfy social needs. The gap in power supply is even bigger. In

the whole country about 30 to 40 percent of the production capacity cannot be put into full play on account of the shortages in power supply.

The principal ways to overcome the short-line restrictions are: (1) Increasing the investments in the short-line industries; (2) Using the newest scientific technology to reduce consumption of the short-line products; (3) Adopting export substitutes and using foreign exchange to exchange for the short-line products urgently needed at home; and (4) Readjusting the industrial structure and speeding up the development of labor-intensive industries. Obviously, (3) and (4) above are only temporary measures and the basic way out is by means of (1) and (2) but they require rather large investments and a considerable length of time. Hence, at the moment we must comprehensively make use of the above-mentioned measures.

## 2. Pertaining to rational fluctuation in economic growth

As mentioned in the foregoing, on the one hand, economic fluctuation come from the interior of the economic system, that is, the actions and reactions of innate contradictions cause the periodic fluctuations of expansion-depression. On the other hand, the pushing of external forces frequently attract and aggravate the innate fluctuations. Actual conditions of the economic development of various countries have shown that be it in a country with a market economy or a planned economy, it is not possible to entirely eliminate periodic fluctuations in economic development. This being the case, a wise and rational measure of macroeconomic control should have the purpose of not entirely eliminating fluctuations and allowing the economy to enjoy a straight-line growth but rather attempt to control fluctuations within the realm of economy's own elastic limits and prevent them from becoming massive enough to bring damages to the economy. Hence, it is extremely important to fix appropriate fluctuation span for our country's economy.

Seen from the absolute quantity, the lowest limit of the growth of the national economy is the ability to ensure that the people's standard of living can continuously be improved to a fixed extent. This embraces the newly increased population each year. In our case, based on the average annual growth rate of 4 percent in the per capita consumption level and calculating on the basis of an annual population increase of 12 miles, on the condition that there being no changes in the accumulation rate, the annual growth rate of national income is 5.2 percent. This should be the lower limit of economic growth. Below this level, then a selection must be made between sacrificing the improvement speed in the people's standard of living or cutting down investment to lower the growth rate of the national economy. When substitution between long-line and short-line stands at 1:1, the higher limit of the growth of the national income as determined by the investment capacity and benefits is 9.7 percent.

Let us turn next to studying the scope of economic rational fluctuations. the supply capacity of short-line industries can only maintain an annual growth rate of 6 percent in the national income. If it is considered that the substitutional role of long-line can be gradually strengthened, say, to the level of 2:1 in the ratio between long-line and short-line, then this growth rate can be raised to around 7.5 percent. But regardless of in whatever point the middle limit of the growth of the national income falls, the fluctuations cannot be too large.

From Table 3 above on the coefficients of economic fluctuations of the principal countries in the world, we can compute and work out that our country's economic fluctuations were 280 percent of Japan, 400 percent of the Soviet Union, 430 percent of the U.S.A., 340 percent of West Germany, 510 percent of France, and 510 percent of Britain. Table 6 below gives the average fluctuation span of the various economic periods passed through by various countries in the years 1953 to 1985:

Table 6. Average Fluctuation Span of Economies of various Countries

Country	China	Soviet Union	United States	Japan	West Germany	France	Britain
Average value	22.09	5.65	6.63	8.73	7.46	6.15	7.53

Taking note of the fluctuation conditions in economic growth of the relatively stabilized countries in the world's economic development, we should control the differential of our country's economic fluctuation span at slightly higher than Japan's level, that is at around 10 percent. For example, take 6 percent as the middle limit, lower limit not lower than one percent and higher limit not over 11 percent. If the growth of the national income is lower than one percent, then not only will the newly increased national income be wholly eaten up by the newly increased population but also a portion of the construction funds will have to be used to maintain the existing standard of living of the people, or the people's standard of living will have to be lowered; if the growth of the national income is higher than 11 percent, then

our country's supply capability will be exceeded. This inevitably will lead to the short-line restriction expanding from the part to the whole. In such a case, there will be no way out except to "eat into the future" or "draw upon the keepings, if any, in storages" and this inevitably will cause a great economic recession.

Appropriately borrowing the use of external funds may help in easing or removing the short-term restrictions. According to the 1985 conditions, roughly speaking, the addition of each \$3 billion of foreign loans will increase the national income by one percent. But the ability of developing countries in using foreign capital is obviously restricted by the ability to repay. Under usual conditions, when a country's loan repayment rate (that is, ratio

occupied by expenditures incurred in principal repayment and interest payment on loans each year out of the total expenditure disbursements) amounts to 20 percent, then the use of foreign loans reaches the limit. Calculated on this basis, in the recent 10 years the utmost annual increase in national income through the use of foreign loans is only 0.5 percent. Its main role is not to raise the upper limit of the possibility of economic growth but to overcome the "bottleneck" restriction, raise the middle limit and make it rise from six percent to seven to eight percent. Use of foreign exchange in improving the supply structure eases off the short-line restrictions and at the same time prevents the further expansion of social gross demand. It can reap full results by doing half the work.

In selecting the strategic target for our country's economic development, the key lies in handling the relations between stability and development well. These two are opposed to each other but are also unified. Seen from the short-term, the two seem to be constantly in a contradictory state and cannot both be had at the same time. But seen from the medium and long term, the two are naturally united. A sustained relatively high growth speed always takes stable development as the precondition, while short-term, partial and imbalanced development always takes medium and long term whole and balanced development as the target. Short-term high-speed growth is possible but the result is that it necessarily brings along a stage of low-speed growth and causes economic development to develop rather large fluctuations, and is thus nonbeneficial to medium and long term economic development. However, it should be understood that stability is only a tactic, whereas only development is the objective. The stability we are looking for is stability of a sort of relative trend while the growth we are going after is appropriate growth which can be attained and can fully display its hidden potentials. Hence, our target is the high-degree unification of stability and growth.

### III. Selection of a Policy for Maintaining Economic, Stable Development

Summing up the above, it is found that the main cause for the setback in our economic development is the over large span in the economic periodical fluctuations. The principal cause leading to the economic fluctuations is the inflation in social gross demand caused by the shortages mechanism and the soft budgetary restrictive mechanism. In recent years, the trend of the inflation of gross demand has been rising without diminishing as manifested in (1) over-large investment scale; (2) too fast a rise in the residents' consumption level; (3) further drop in foreign exchange reserves, high cost of foreign exchange earnings and increases in the state's subsidies to import and export; and (4) expansion in credit and loan balances. Control of the social gross demand should be the principal task in maintaining the economy's long-term stable growth.

1. Careful but continuous dilution of the tactics of direct adjustment and control.

Our country is currently located at the beginning stage of the development of a planned commodity economy and there are three basic features: (1) Low level of per capita income, only around \$300; production of a commodity or commercial nature still insufficient; production of a self-sufficiency nature and labor of a self-aid nature still occupy a considerable proportion of society's whole productive forces; and savings of urban and rural residents, though increasing rather rapidly, are limited by the income level and in the near future cannot meet the demand of productive investment; (2) economic development being extremely imbalanced; this imbalance consists of the imbalances in the two strata of industry and locality; this special feature determines that there are many forms in the ownership system and the economic management form; and (3) low level of industrialization, and the disintegrated character of development of the market structure causing insufficient elasticity in the economic structure, and poor circulating quality and substitutive character between the essential factors of production.

These three special features determine the insufficient motive power in the self-development of our economy. First, the investment principal body is still the state or the state-owned enterprises; second, the role of the allocation of resources by market mechanism has been reinforced but because of the drawbacks in the market structure this regulatory role is still rather limited; third, the enterprises' microeconomic mechanism is still not sufficiently rational and the enterprises are still prone to short-term acts. Hence, our economy is different from the market economy of the early stage and is also different from developed commodity economy; it is also different from pure planned economy but is shifting from the goods-in-kind economy of planned control, to the economic form specially apparent in the transitional stage to the planned commodity economy. In this stage, economic development still cannot depart from the state's rational and compulsory pushing, the national economy's macroeconomic control still cannot wholly remove the color of direct control, and the various economic policies still cannot escape from bearing the stamp of administrative intervention.

Undoubtedly, we must reform the methods of, under the traditional structure, the power of control being too centralized, direct control being too rigid, and the control being too wide and too tight; we must reduce the sphere of direct control and expand indirect adjustment and control, and the area of self-regulation by means of the mechanism of commodity economy. But the process of reducing the tactics of direct control must be suited to the degree of development of commodity economy, and to the capability of indirect adjustment and control. If this process is too slow, then the friction between the two structures and the two kinds of economic operational mechanism will be too large and impede the healthy development of the economy; and if this process is too fast then, possibly, the two types of structure may be dislocated, lead to macroeconomic loss of control, cause

unnecessary confusion in economic life, and may impede the normal development of the economy. Hence, in the process of reform of the economic structure, it is necessary to correctly handle the relationship between breaking and establishing, and pay note to avoiding the two kinds of tendency mentioned above.

In the initial period of reform of the economic structure, we should not simply abandon the tactics of direct adjustment and control but should concurrently with shrinking the scope of direct adjustment and control, actively improve the tactics of direct adjustment and control; make the tactics of direct adjustment and control able to take the laws governing socialist commodity economy as the foundation; continuously become scientific, and thereby jointly with economic measures, build an effective macroeconomic adjustment and control system. For this reason, not only is it necessary to improve the method of direct control but also improve the news and information system, execution system, and law-enforcement system to ensure that policy making will be scientific and democratic. As far as possible, in the system we should reduce and avoid errors in policy making and the economic losses arising thereof.

## 2. Gradual augmentation of the regulatory role of monetary policy.

The real quality of large and small demand is the large and small ability to pay. There should be regression of the currency (broadly speaking currency means the sum total of cash and deposits of enterprise and business units) in circulation from 1953 to 1985 and the annual growth rate of the national income. The degree of inter-relationship between the two is rather high ( $r^2$  equals 0.9612) and hence regulating the supply volume of money or currency regulates the relationship between social gross supply and demand.

The most important factor affecting and influencing the volume of currency or money in circulation is bank loans. The inter-relationship between bank loans and money in circulation is rather high ( $R^2$  equals 0.9844.) The elastic coefficient between the two is 0.97, that is for each increase of 1 yuan in loan, money in circulation will increase by 0.97 yuan. Hence the key in controlling the volume of money in circulation is to control loans.

Under the conditions of banks not having yet become fully commercialized, granting of loans should be under administrative control. Seen from the angle of indirect control, interest rates should take control. Control of the central bank over the specialized banks and local banks should adopt the system of reserve funds.

Thus, control of money supply should be subjected to three channels: 1. Control of the issuance of banknotes should be subjected to legislation by the state. At the beginning of each year, the volume of banknote issuance should be fixed, should not be changed easily, and should be subjected to gross volume control; 2. The state takes over control of interest rate readjustment, and interest rates should be used to readjust the demand for money;

and 3. The central bank should act for the State in the control of banks, commercialization of specialized banks should be implemented, and the central bank should use the reserve funds system to control the gross volume of loans made by the other banks.

In our opinion, the first method of control is most effective and can be carried out most easily. With the gross volume of money supply being controlled, interest rate can be left aside and be allowed to play the role of a lever in readjusting the structure of using of funds. The central bank may employ various economic measures, including the setting up of the reserve fund system, to carry out business control, and administrative intervention should be reduced to the minimum. However, the greatest obstacle to enforcement of the first method of control is the soft budgetary control in our country's financial and currency structure. If this point is not overcome, it will be difficult to control the volume of money supply.

## 3. In the state's financial receipts and expenditures, the principle of opulence supplementing want should hold, and national finance should serve as reservoir in regulating the balancing of gross volumes.

Financial policy is a tool whereby the state exercises its power to take part in the quantitative operations of economic income and outlay, and thereby assert the objective of economic intervention.

A financial policy may be divided in two large parts: financial receipts policy and financial expenditures policy. The former is a measure to readjust the state's participating in the distribution of the national income principally through the form of taxation and levies on profits. The latter is a measure to regulate changes in social gross supply and demand, and the principal forms are the government making investments and consumption distribution.

Since 1980, the ratio of financial receipts in our country's national income has shown a downward tendency, greatly affecting the economy. In making a statistical regression of the financial expenditures in 1952 to 1985 and the growth rate of national income, the adjudged coefficient  $R^2$  was found to be 0.9487 and the elastic coefficient of the two was found to be 0.97, that is, for each one percent increase in national income, the increase in financial expenditures was 0.97 percent.

In the realm of financial policy, the role of government's subjective wishes is rather strong. In recent years, following deepening of reform of the economic structure, the state delegated power and ceded rights to the enterprises, and caused a reduction in financial revenues. On the other hand, the scope of government financial expenditures was not correspondingly reduced, thus causing imbalance in receipts and expenditures and there have been budgetary deficits over a succession of years. When government faced a financial deficit, it made overdrafts from the banks which could only issue more banknotes to make up the gap and thus further expanded social

gross demand. Hence, our financial policy cannot aggravate the economic fluctuations but should act as a reservoir to regulate a balance in the gross volumes. When economy is on a high tide, we should take in more receipts and cut down the expenditures, cutting down demand and cooling off the over-heated economy; at a time of economic recession, take in less receipts and expend more, reducing the span of the economic recession. In particular when the supply volume of money cannot effect active control, this sort of an opportune selection of counter-periodical measures may be extremely effective.

Financial policy should operate in coordination with currency policy. Currency policy should be taken as the principal factor in regulating social gross demand and financial policy should be used to principally readjust the supply-demand structure. Under the current conditions of the supply volume of money being difficult to control, financial policy is extremely important in controlling the total amount of social gross demand.

#### 4. Stabilizing the policy on foreign exchange rate and maintaining equilibrium in balance of international payments.

Following implementation of the policy of opening to the outside world, our country has come into daily, more intimate liaison with the international economy and the degree of dependence on the international market is increasing yearly. Hence in order to maintain a stable economic growth, it is necessary to maintain equilibrium in the balance of international payments. The policy on exchange rates is an important measure in coordinating international receipts and payments.

Changes in exchange rates are governed by the two factors of changes in the international economy and changes in domestic economy. No country in the world can control international economic changes. A country can only regulate its domestic economy to suit changes in the international economic environment. The policy on exchange rates precisely effects readjustment by means of the exchange rate in the process of achieving equilibrium in the balance of international payments. At the same time, only through the policy on exchange rates being in coordination with the domestic economic policy can we achieve the gross balance of the economy vis-a-vis internally and externally. In the process of the economy's internal and external general balance, internal economic balance is the main factor. At a time of inflation of domestic demand and expansion of the gap between supply and demand, if mending of the domestic gap is sought through increasing imports, naturally the demand for foreign exchange will be increased. In order to maintain equilibrium in the balance of international payments and also expand imports, at a time of demand inflation, prices on the domestic markets will rise, supply of material resources will be insufficient, cost of exports will go up and the quantity of exports will decrease. This will lead to rise in the cost of foreign exchange, and drop in foreign exchange earnings,

and deterioration of the balance of international payments will ensue. To rectify this situation, within a short period the only way is to increase the financial subsidies and in such a case the greater the volume of exports, the more serious will be the burden of finance and the more seriously will the imbalance of financial receipts and expenditures, with the possibility of leading to further loss of balance in the internal economy. At this stage, if domestic demand is not depressed but resort is made to devaluation of the exchange rate to ease the deterioration of the balance of international payments, and deterioration in financial receipts and expenditures, then the increase in exports will further reduce domestic supply, further lead to rise in domestic demand, increase in the volume of imports and very soon this will offset the temporary turning for the better of the situation of balance of international payments brought about by devaluating the value of money. The economy will then enter into a new round of internal and external imbalances and will lead to economic fluctuations and disturbances.

In our country, inflation of gross demand is a long-term and sustained problem. Extreme care should be taken when regulating the exchange rate. It is necessary to consider the liaison between both the domestic and international sides. Moreover, the major point should be pleased on control of the domestic demand. Only under the conditions of the basic balance in domestic supply and demand can the policy of exchange rate independently play its role of regulating international receipts.

#### 5. Formulating and implementing a rational industrial policy and constantly rationalizing the structure of the national economy.

An industrial policy is a policy measure using economic, administrative, and legal means to promote or check the development of certain industries and trades; locality and technology to achieve the aim of improving the economic benefits and improving the economic structure. Our country is currently situated in the transition from the traditional centralized planned economy, to a planned economy. Rationally formulating and implementing an industrial policy will be beneficial to coordinating the whole and partial interests, and the relations between economic measures and administrative measures, and between direct control and indirect control. It will also be beneficial to ensuring the long-term stable development of the economy. On the side of the current macroeconomic control of the national economy, it is an important piece of work that should be grasped well.

#### Li Yining Comments on Planning, Market

90CE0164A Hong Kong WEN WEI PO in Chinese  
1 Apr 90 p 2

[Unattributed report: "Li Yining Comments on the Relationship Between Planning and the Market"]

[Text] Some Western critics believe that China is reverting to a planned economy. Beijing University

Professor and Standing NPC Committee Member Li Yining (0632 0110 1337) disagrees with this view. Professor Li believes that China not only is not, but cannot, take that route.

#### The Major Cause of Economic Difficulties

When visited by our reporter, this famous Chinese economist pointed out that China is still facing the major question of how to regulate the relationship between a planned economy and a market economy. Li Yining has his own opinion on this question. He said that the Chinese economy is in a state of disequilibrium, manifested in two ways: First, the market is imperfect, which we can see primarily in our flawed pricing mechanism; second, enterprises still cannot truly take sole responsibility for their own profits and losses—or else they assume the profits but not the losses—and there is still a rather weak consciousness of commodity production. This disequilibrium is the chief cause of China's economic difficulties.

Li Yining believes that China's economy still suffers from an unequal mix of supply and demand: demand still far outstrips supplies. Right now market sales are weak, showing no evidence that there has been any fundamental change in the relationship between supply and demand. Rather, there is a structural weakness that exists in a situation of growing disequilibrium. With respect to the second area of disequilibrium, that is, the fact that enterprises still cannot truly take sole responsibility for their own profits and losses, he further explained that this situation can be adjusted by regulating prices and setting quotas on volume. However, price regulation cannot be fully brought into play at this time, and as a consequence quotas on volume become even more crucial.

Professor Li feels that a planned economy is defined as government-imposed quotas on volume. We can look at quotas on volume in two different ways: the first way is the market pattern, reflected in the principle of priority. For example, in a situation in which the sources of goods are limited (that is, supplies are limited), whoever is first to buy a commodity has priority of use. And when sales channels are limited (that is, demand is limited), whoever is first to market will sell his commodities first. The key here is market information. Whoever masters this information will be first in line. The use of trickery for private gain is a product of these kinds of quotas on volume.

#### Regulated Quotas on Volume

The second pattern is a system of government regulated quotas on volume. This is the issue which Professor Li strove to clarify during our meeting. He discussed the four principles behind government regulated quotas on volume, as well as what means the government should adopt in applying these principles to regulate the relationship between centralized planning and a market economy.

The four principles behind government regulated quotas on volume, and the means for applying these principles, are as follows:

- 1) The Principle of Objectives: This stresses that things should be done in order of importance and urgency, and then uses this criteria to allocate limited resources (such as steel, locomotives, freight trains, and railroad cars). Whenever objectives are constantly competing for priority status, priority depends upon relationships. The state, in applying the principle of objectives, must scientifically formulate and implement industrial policies. The quantity of investment and the credit awarded are both means of using quotas on volume to reflect industrial policies. Therefore, they cannot be decided in an arbitrary, uniform manner.
- 2) The Principle of Equality: This is the equal rationing of all kinds of commodities. The foremost example of this principle is in the fixed supplies of grain that urban residents receive. This principle has certain advantages, but it should be reduced in scope to encompass only those few commodities that are necessities of daily life. When supplies are limited we must not re-expand this principle of equality.
- 3) The Principle of Historical Ratios: This principle states that however things were done in the past, that is how they are to be done today (the calculation of base figures, for example). This characterizes a kind of inertia, but it has at least one advantage: it guarantees economic stability. However, this principle is also very rigid and raises the question of the rationality of applying past ratios today. After circumstances change, we must decide whether to revise this kind of ratio. Li Yining feels that we should continue to reduce the use of this kind of ratio and give more weight to the principle of objectives.
- 4) The Principle of the Two Track System: Planned pricing and market pricing coexist. Professor Li believes that there are two kinds of two-track systems: a lesser one and a greater one. In the "lesser two-track system," many commodities are priced in two ways, so that a price difference exists for a single commodity. Official and private profiteering result from this system. In the "greater two-track system," one kind of commodity has only one price, but it is either a planned price or a market price. Those commodities that have less effect on the national economy and the people's livelihood, and are also in rather short supply, may be assigned a planned price. Commodities for which supply and demand essentially balance out may carry a market price. This method prevents chaos in circulation, ensures that important projects receive a supply of production materials, and promotes effective supply throughout society. However, the transition between the lesser and the greater two-track systems also must be divided into phases. That is, we must ensure that after we put the greater two-track system into effect, we pay close attention to the following things: First, when we set planned prices, we must take the law of value into consideration and adhere to it as

closely as possible. Second, planned pricing subsidizes the producer, whereas market pricing subsidizes the consumer and changes an open subsidy into a hidden subsidy. This greater two-track system may remain for a long time to come, because the state of disequilibrium will not change in the short term.

### The Way To Intensify Enterprise Reform

This reporter asked Professor Li Yining how we should regard the call for "primary emphasis on the planned economy." He said that he has always believed that the "emphasis" in this phrase refers to government's power to take action. Whether the government regulates more or less depends upon the state of disequilibrium. When this situation is alleviated, quotas on volume can be reduced, but the government can still retain the power to take action. This high level regulation, and the kind of regulation itself, conform to the government's principle of objectives, as well as to the direction in which it wishes to exercise control.

Professor Li said that right now we should intensify enterprise reform by using a shareholding system under the system of public ownership. Only in this way can we avoid shortsightedness in enterprise conduct. The contract system is only a transitional system. He pointed out that profit and tax distribution and shareholding systems must be built in coordination with one another. That is, investment profits are the principle part of the system. The government levies taxes, and, supposing that the enterprise's returns increase and more goes into central government coffers, the government's power to take action is enhanced.

### Li Yining Comments on Rectification, Proposes Reforms

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[ECONOMIC REPORTER] in Chinese  
No 13, 2 Apr 90 pp 4-5

[Report on interview with Li Yining (2980 0110 1337), well-known PRC economist, by correspondent Ho Iwen (0149 0076 2429): "Li Yining Persists in Advocating a Shareholding System and Is Still Optimistic About Reform"; date, place, and occasion not given]

[Text] Li Yining, the well-known PRC economist, has made many contributions to economic reform in the last decade. Since 1989, he has switched to environmental protection research, gone into seclusion, and refused to give interviews. When I ran into Mr. Li at the recent National People's Congress, he finally consented after repeated requests to talk extensively with me about current issues, including the direction taken by improvement of the economic environment, rectification of the economic order, reform, and industrial restructuring.

### Although Retrenchment Is Essential, a Certain Amount of Readjustment Should Also Be Considered

Although improvement of the economic environment and rectification of the economic order were steps that had to be taken at the time, as I saw it, the price issue should not have been handled as it was. The announced price increases for tobacco and alcohol in the summer of 1988 resulted in withdrawal of savings and panic buying, and stirred up public anxiety. Under those conditions, the proposed "dual-retrenchment" policy was determined by the historical conditions of the time. Therefore, I think above all that "dual-retrenchment" should be realistically evaluated and judged according to the historical conditions of the time. Under "dual-retrenchment," there were bound to be costs that would have to be paid, such as a drop in the economic growth rate, difficulties for some enterprises, bankruptcy for some township enterprises, an increase in unemployment, and lower incomes for staff and workers. How should these costs be evaluated? I think that we were forced at the time to choose the lesser of two evils. As inflation was so bad, if we had not taken steps to improve the economic environment and rectify the economic order, we would have been unable to force down inflated prices, without which all reform would have turned to chaos. In light of this, the costs that we have had to pay since 1989 are not so unreasonable.

Since the rectification objective has now been achieved in that inflated prices have gradually returned to normal, I think that we should begin to pay attention to the fact that we cannot continue to have only one economic objective, because there are always many economic objectives. For instance, giving overall consideration to macroeconomic objectives, current conditions determine that we should now adjust our degree of retrenchment, based on the principle of continuing to adhere to the "dual-retrenchment" policy. This is because we have only the one overall aim of modernizing China. As I now think that we should consider diversifying our single retrenchment objective somewhat, I agree with the proposal in the government work report for "an appropriate degree of readjustment premised on continuing the 'dual-retrenchment' policy."

### Reform Is Going To Be Very Difficult

As improvement of the economic environment and rectification of the economic order must now be combined with deepening of reform, what is our current economic reform objective? It should be to establish mechanisms in the following two areas: 1) microeconomic mechanisms, i.e., a self-restraint mechanism to enable enterprises to accumulate and grow on their own, and a mutual-restraint mechanism to enable them to be eliminated through competition, should be established; and 2) a macroeconomic mechanism, i.e., an inherent stability mechanism, should be established to both cool down the economy when it gets overheated and make

automatic adjustments when it goes into a decline. In this way, further appropriate steps taken by the government could be effective.

As microeconomic self- and mutual-restraint mechanisms and a macroeconomic self-stabilizing mechanism have not yet been established, we are still faced with some fairly important tasks, and our reforms are certainly not yet complete. Thus, whereas improving the economic environment, rectifying the economic order, tightening credit, and appropriately easing certain credit policies premised on continuing retrenchment may all be well and good, we must remember that we will not be able to genuinely put our economy into a good cycle until the central government truly establishes these microeconomic and macroeconomic mechanisms.

The issue is the same as it was before retrenchment went into effect in that, although the inflation rate has been reduced, there has been absolutely no resolution of the mechanism issue. This shows that only deepening of reform will enable the PRC economy to extricate itself from its present predicament.

It seems that reform is certainly not going to be such an easy thing to accomplish. Unless enterprises are given decisionmaking power and made to assume the sole responsibility for their profits or losses, it will be impossible to establish enterprise self- and mutual-restraint mechanisms. Although the contract management responsibility system is feasible under current conditions, I have always thought of it as an interim measure which cannot resolve the mechanism issue. Therefore, I still think that we should make the transition to a shareholding system, which could be mostly state-owned to conform to China's national conditions.

Actually, the following four macroeconomic mechanisms must be established:

1. A Public Finance Mechanism: Profits must be separated from taxes, and a central and local tax-sharing system must be used, instead of the current system—which the central government is unable to regulate or control—wherein local finance departments have sole responsibility for tax collection.

2. A Banking Mechanism: Although the central banks are the state banks, commercial banks should strive become gradually more commercialized, even though this is not feasible now.

3. An Income-Regulation Mechanism: Although an income-regulation system is feasible, it will only be able to play a coordinated role with public finance and banking to give our economy inner links, when various income-declaration regulations are perfected and the government draws up progressive tax rates.

4. A Pricing Mechanism: Although a system of macroeconomic regulation is generally hard to establish under the dual-track pricing system which is partially based on directive planning, it would be impossible to completely

eliminate the dual-track pricing system in the PRC at present. This is because of the great supply shortages of key products, natural resources in particular, that are important to the national economy. To ensure the needs of key enterprises and projects, the state must keep a certain amount of reserves of key products and natural resources. How can this be accomplished? I am now considering whether the problems created by the dual-track pricing system can be resolved by using what I call "general dual-track pricing," by which dual-track pricing is used for all social commodities instead of for each commodity. The idea is that particular commodities would have only one price, either planned or market. Dual-track pricing for particular commodities is very difficult and has many disadvantages. As the dual-track pricing system can be changed to a unitary system only by using either a unitary planned or a unitary market pricing system, neither of which is feasible by itself, I think that a unitary planned pricing system should be used for a few key commodities, and a unitary market pricing system should be used for the rest. Although this idea of a "general dual-track pricing system" is consistent with my past program, two points deserve particular attention: 1) The law of value must be considered, or at least not ignored, for the few key products with planned prices; and 2) Even if the government practices price compensation, it must still be limited. An income-regulation system can be established in the next phase of reform if public finance separates profits from taxes and banking becomes more commercialized, i.e., is given more decisionmaking power and made to assume the sole responsibility for its profits or losses. Provided our pricing system gradually changes from a particular to a general dual-track pricing system and efforts are made to establish a macroeconomic regulation and control system in the coming years, our economy will naturally be able to extricate itself from its present predicament.

My current views on my previous seven-year economic reform program for 1988 to 1995 are as follows: 1) I think that my program was generally correct, and I still hold to it; 2) I did not pay enough attention at that time to the complexity of China's economic reform, thought that it would go more smoothly than it did, and should have slowed its pace somewhat to make it a 12-year program lasting from 1988 to 2000, due to the variety and complexity of economic and political issues. I am still optimistic about reform if it follows this program. It is the only way to improve China's living standards, which will otherwise decline relative to those of developed countries. This point is independent of man's will.

#### I Have My Own Interpretation of the "Dual- Retrenchment" Policy

Why do I agree with the "dual-retrenchment" policy of the current campaign to improve the economic environment and rectify the economic order? I have my own

interpretation of retrenchment. Retrenchment refers to a tightening in the areas of public finance and banking. What is the meaning of tightening in public finance? It refers to the principle of keeping public expenditures strictly within, and not allowing them to exceed, the budget, and the budget that was passed by the Third Session of the Seventh National People's Congress (NPC) is being strictly enforced according to this principle. And what is tightening in the area of banking? It means not exceeding the planned amount of overall credit. Persisting in "dual-retrenchment" means that the growth plans and fiscal budget passed by this session of the NPC should be regarded as overall limitations not to be exceeded. Although an appropriate easing of retrenchment is called for by policy and industrial restructuring, it would mean abandoning the retrenchment policy if it exceeded the fiscal budget. Why must retrenchment not be abandoned? I particularly emphasized at this NPC session that until local governments and enterprises are subjected to profit and budget limitations, abandoning the "dual-retrenchment" policy would be bound to cause economic overheating again. We should keep a close watch on this. Our history has taught us that until we establish sound mechanisms, "dual-retrenchment" cannot be easily reinstated once it is abandoned, and if past conditions recur, we will land in a passive position again. Therefore, I do not advocate abandoning "dual-retrenchment." If we can establish good operating mechanisms for our enterprises and macroeconomic regulation and control systems, and if we are eventually able to put our economy into a healthy cycle, we will then be able to evaluate this phase of "dual-retrenchment" from a historical perspective, since it will have laid the foundation for future development.

#### **The Necessity and Difficulties of Industrial Restructuring**

Let us talk about the following four reasons why industrial restructuring is now necessary:

1. To achieve sustained, steady, and coordinated economic growth, our industrial structure must first be better coordinated. Achieving the goal of quadrupling GVIAO [Gross Value of Industrial and Agricultural Output] by the end of the 20th century will also require industrial restructuring.

2. The current market slump is absolutely not being caused by overproduction but by a weak structure in which some products are overstocked while others are in short supply. Although overall demand is still greater than overall supply from a quantitative perspective, the market slump can only be halted by producing marketable products and constantly renewing the variety of colors and designs, which involves industrial restructuring, from an enterprise perspective.

3. Enterprise triangular debt can be eliminated only through industrial restructuring, without which new debts will be incurred steadily as soon as old ones are cleared up.

4. The crux of industrial restructuring per se is actually whether the PRC can truly begin to change its export mix and break into the international market within a certain period of time. Exports can never keep up unless product mix is restructured, and products cannot be competitive unless they conform to international market needs. Only after product mix is restructured can international markets be penetrated and enterprise efficiency improved. As our peak repayment period for both foreign and domestic debts has arrived, it will be impossible for us to pay our debts unless we resolve our industrial structure problems. As the state needs the increased revenue from better enterprise economic efficiency to pay its domestic debts and increased exports to pay its foreign debts, industrial restructuring is very urgent because it is so closely linked to our foreign and domestic debt repayment.

However, industrial restructuring is going to be very difficult.

First, both additional revenue and reserve funds must be readjusted. Additional revenue refers here to the additional annual revenue that public finance can use for industrial restructuring, which is very limited. Moreover, as most additional annual revenue is a fixed expenditure that must be used to repay debts, there is very little leeway in truly using it for industrial restructuring.

The difficulties are even greater in readjusting reserve funds. The following three current issues are going to be very difficult to resolve: 1) since readjusting reserve funds is bound to cause some enterprise bankruptcy and immediate unemployment problems, our efforts to maintain social stability cannot be relaxed; 2) readjusting reserve funds is bound to involve departmental and local interests, because it is a readjustment of profit relations and can work only if the state has plenty of money; and 3) enterprises are not interested in readjusting reserve funds because this would destroy the current contract management responsibility system which has made capital goods permanent, and would leave enterprises no way out, which they must be given if we want them to restructure. In addition, a capital goods market has not yet been established.

So what can we do? We should take the following three steps:

1. Enterprises should be merged instead of being allowed to go bankrupt. Although some bankruptcy is certainly necessary, it should be kept from having too wide repercussions. After shareholding systems are clearly established, enterprise groups should be set up to realign enterprises. This kind of industrial restructuring would have a minimum of social repercussions.

2. Markets for the transfer of capital goods, such as enterprise assets, which are necessary to make industrial restructuring possible, must be developed.

3. The possibility of developing stock markets based on China's national conditions should be explored. They could be tried out in Shanghai and Guangzhou in order to gain and sum up experience. Stock markets could both resolve public finance difficulties and diversify savings to reduce the pressure on banks. Thus, while carrying out industrial restructuring, enterprises would have a new way to raise funds, and capital invested in stock markets would earn higher profits.

### **Reform, Management of State-Owned Assets**

*HK1406073990 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 4, Apr 90 pp 28-31*

[Article by Luo Yuanming (5012 0337 2494) edited by An Luming (1344 6424 2494): "Ideas on the Reform of the System of Management of State-Owned Assets"]

[Text] Since the Third Plenary Session of the 11th CPC Central Committee, our country has carried out the socialist planned commodity economy with the public ownership system as the leading factor. Following the adoption and pushing of the strategic guideline of reform and opening to the outside world, many defects have been shown in the system of plurality in the management main body of assets ownership right which in the past had played an active role under the conditions of the products economy; this has urgently required of us to study and probe into a new pattern of state-owned assets management suitable to our national conditions and to structure a new system of management and control of state-owned assets. In accordance with the theory of the initial stage of socialism, revolving around the general objective of upbuilding a socialism with Chinese characteristics and duly considering the defects of the old system and the new conditions and new problems since the reform and opening to the outside world, the major points in searching for, and establishing a new state-owned assets management system should be to solve the form of existence of our state-owned assets, the form of the realization of ownership right and the form of management and control, so as to effectively enforce the management of state-owned assets and improve their operational efficiency. This article will offer certain ideas as follows for the readers' probing and reference.

#### **I. Principal defects of the traditional management system**

Our state-owned assets have been in existence and managed for more than 40 years. The management system in the past was coordinated with the system of products economy and was a management system with no separation between government and enterprise functions. This management system embodied various defects such as obscure relations in ownership right, management by many heads and unclear responsibilities, all of which were extremely disadvantageous to improving the use effects of state-owned assets. Actual practices in the reform of the economic system have shown that if this old management system is not reformed, then it will be difficult to carry out the deepening of the reform of the

enterprises' operational mechanism. In recent years, our country's economic theoretical circles and actual workers have, from various angles and from the sideline, analyzed the defects of the state-owned assets management system. Summing them up, the principal ones are found to be the following:

(1) Serious damages have been caused to the legitimate rights of owners of the state-owned assets which is detrimental to improving the operation and use benefits of the state-owned assets.

For many years our country has carried out a system of management of state-owned assets with the management main body being of a pluralistic nature, that is, there are the government, finance department, banks, planning commission and various departments in charge of the enterprises all of whom served as the main bodies in the management of the property rights of state-owned assets, separately and severally exercising the ownership right functions of the state-owned assets. Because of the many heads in management, power was divided, friction frequently occurred, there was mutual evasion of responsibilities and the results caused were nonseparation of government in enterprise functions, vague property right relations, departments and localities building up their own special spheres of influence and power, interests and responsibility being blurred and unclear. Actually, nobody and no department could represent the state to exercise the integrated functions of unified ownership right. This has caused damages to the development of the national economy and the increase in financial revenues.

Under the traditional state-owned assets management system, on the side of the management of state-owned assets there exist the following major problems which urgently need solution: 1. Confusion in management and cloudiness in "family fortune." Due to the causes of the system not being strict or stern enough and laxity in management, in state-owned assets there universally exist the phenomena of actual conditions not in conformity with the accounts, extra accounts outside the formal account books, and the increasing growth of assets outside the accounts. According to our investigations in Xiangfan City and Changchun City, various extra-account assets amounted to over 20 percent of the assets shown in the account books. On this basis, it may be estimated that for the country as a whole the gross volume of extra-account assets would be over 300 billion yuan. 2. Large volume losses of state-owned assets. Because in the past the state did not have a special organ to represent the owners of the state-owned assets to take charge of the management and supervision of all the state-owned assets, certain departments and units converted without permission large amounts of state-owned assets into collective ownership, changed control within the budget to control outside the budget and even from public ownership to private ownership. In the piloting of the stock-holding system, certain enterprises converted the enterprises' profit retentions which should belong to the state and even the depreciation funds of state-owned assets into shares collectively owned by enterprises' staff

members and workers while earnings and benefits from the assets were also converted from the state to collective hands. Private and individual shares were guaranteed interest payments in addition to declared dividends the combination of both of which far exceeded the profit-making rate of the capital funds of the enterprises. In the case of sino-foreign jointly financed enterprises, assets owned by the Chinese side, without going through proper evaluation, were assigned shares at their net value which was far below their actual value and no valuation was made of the invisible assets. "Fertile waters thus flowed onto foreigners' farmland." Greater confusion even reigned in assets management outside the country. Many state-owned assets outside the country were registered in private persons' names. Chances for irregularities were exceedingly great and there have been frequent cases of forgery, deceit and personnel running away with public funds not of their own. 3. Serious losses and wastes in state investments. Large amounts of investments have failed to form state-owned assets which could be put into effective use. According to statistics, in 1988 of the investments in fixed assets the rate actually put into utilization was only 65.8 percent, the lowest level since 1978. In that year, in the budget of the whole country only the portion of fixed assets of state-owned industrial enterprises not used, or not needed or sealed and put idle, amounted to 25.8 billion yuan. If we were to include the idle assets of other enterprises inside the budget and of the large number of state-owned enterprises outside the budget, then, estimated on the basis of typical investigations made by certain localities, the gross amount should be over 100 billion yuan. 4. The problem of state-owned assets "eating into the old capital" was an enormous one, even reaching a serious stage. According to investigations made by certain cities and towns, of the existing fixed assets of the enterprises, their replacing value was at least 50 percent up on the originally installed value, some even to the extent of 100 to 200 percent. Even calculated at 50 percent, it was found that in a year's time the amount of depreciation less set aside by state-owned enterprises within the budget amounted to around 25 billion yuan. 5. The owners have failed to set up an effective checking and restrictive mechanism against the operators, thus leading to losses of the owners' rights and benefits. First, in connection with the use of the profit retentions of enterprises, there was a lack of effective supervisory and controlling measures. According to typical surveys of many localities, in these years, the portion of the enterprises' profit retentions used on production development was only around 20 percent. Second, the growth in receipts in the nature of salaries and wages far exceeded the growth in the labor productivity rate. In 1988, the salaries and wages of staff members and workers of units owned by the whole people increased by 20 percent whereas the labor productivity rate of the whole personnel went up by only 6.8 percent and it even happened that an enterprise, though facing increasing deficits and losses, continued to increase the salaries, wages and bonuses of its staff members and workers as usual. Furthermore, there was a lack of the necessary vigilance and restriction on loans

for investments on fixed assets. According to statistics, in 1988, the total amount of the balances of capital construction and special loans made by industrial enterprises embodied in the entire national budget was 169.9 billion yuan, in the same year, repayment of loans by using profits before payment of the income tax amounted to as high as 18.35 billion yuan. Loan balances and amount of loan repayments averaged a yearly increase of respectively 40 percent and 30 percent whereas in the same period the realized profits of the enterprises averaged an increase of only 3.4 percent. This illustrated that currently loan repayments by enterprises have not been from the newly increased profits from the loan projects as stipulated but have been from tapping the operation receipts of the original state-owned assets. 6. The operation benefits of the state-owned assets have been continuously falling but the amounts of losses and deficits have been drastically rising. In 1985, the rate of profits on capital funds of state-owned industrial enterprises comprehended within the budget was 13.9 percent; in 1988 it dropped to 10.5 percent, indicating that in a year the formation of benefits of state-owned assets was cut down by 23.1 billion yuan. As for the deficit amount of state-owned industrial enterprises within the budget, it amounted to 3.69 billion yuan in 1979 but rose to 7.42 billion yuan in 1988, an increase of one hundred percent. If we add on to this the losses of a policy nature and operational nature incurred by state-owned commercial, grain and trading enterprises comprehended within the budget, then for the corresponding years the aggregate deficits increased from 11 billion yuan to some 52.06 billion yuan, an increase of 400 percent.

From this it can be seen that the traditional management system of state-owned assets has been extremely disadvantages to improving the operational and use benefits of state-owned assets and the development of planned commodity economy based on the socialist public ownership system.

(2) Making it difficult to protect the value and increase the value of state-owned assets and disadvantageous to enforcing "demarcation of government and enterprises" and "separation of the two powers."

For a prolonged period of time, in the entire course of economic administration and management our government has centralized in itself both the functions of the socio-economic managers and the functions of owners of state-owned assets. Both the spheres and targets of these two kinds of functions in actual work are frequently not unanimous; not only has this caused confusion and friction in these two functions but also has become the source of the prolonged existence of "nondemarcation between government and enterprises" and "nonseparation of the two powers." On the one hand, when government exercised its functions of social manager or controller, frequently administrative methods were used on the control and management of the state-owned enterprises and the enterprises' self interests were overlooked. On the other hand, when government exercised the

functions of owners of assets, frequently, out of consideration for the interests of the locality, the system and the department, it made use of administrative measures to carry out direct intervention into the production and operation activities of the enterprises. This would dilute government's macroeconomic regulation and control functions and at the same time exploit and deprive the enterprises of their autonomous power in operation, thus affecting their economic benefits. Should the enterprises' economic benefits become poor, government would not bear any responsibility and if the enterprises' responsibilities should be investigated then it would not be fair to the enterprises. As a result, government could not but compensate the enterprises for their operational losses and this would turn out to be the enterprises' "all eating from the same big pot" at the expense of the state and, literally speaking, the enterprises would lack the motive power mechanism and the mechanism of restraint. If a situation of this kind is not rectified, then there will be no possibility of improving the economic benefits of the enterprises.

(3) Causing collision and conflict between the property right and management of state-owned assets of enterprises and reform of the enterprises' operational mechanism, thus disadvantageous to deepening the reform of the enterprises.

The targets of the reform of our country's state-owned enterprises are to form enterprise operation mechanisms of autonomous operation, self-development, self-restriction and control, and self-responsibility for profits or losses. Since the traditional state-owned assets management system has brought into being a "vacant seat" in the property right of state-owned assets and lacked personified representation, the current deepening of reform of the state-owned enterprises has been affected. For example, in the current enterprise reform, contracting, hire and lease, and operation of the stock-holding system have already touched on such problems as how to demarcate and separate between the owners and operators of the property right of state-owned assets, how to assess and evaluate the assets, how to distribute the interests and how to improve the operational form; the amalgamation and auctioning of enterprises have also touched on the problems of how to transfer the property right, handle the assets and dispose of the receipts; in the piloting of the stock-holding system, there are such problems as who should be the holders of the state shares, and how to manage the issuance and circulation of shares, stocks and securities. After separation of the flow of profits and taxes, there arises the problem of who is to organize and supervise the collection of the benefits and dividends belonging to the state-owned shares and in the sino-foreign jointly-financed and jointly-operated enterprises, there are the problems of how to assess and evaluate the assets input by both parties, how to protect our side's right and interests and how to manage and supervise the operational activities on the assets; in the reform of the housing system and the compensatory transfer of the use

right of land, there are also the problems of the transfer of the property right of state-owned assets, handling of assets and distribution of benefits; and so on and so forth. All these can hardly be solved by the traditional state-owned assets management system.

Summing up the above, it may be said that in the reform of the economic system, carrying out reform of the state-owned assets management system and structuring a new state-owned assets management system have constituted a "must."

## II. Suppositions on setting up a new management system

One of the targets in the reform of our country's economic system is to reform the traditional economic management pattern and structuring anew a macroeconomic operational system conforming with the development of our country's socialist planned commodity economy. Based on this demand, in the restructuring of the state-owned assets management system, it is necessary to firmly insist on the ideas of "separation of government from enterprise functions," separation of assets ownership right and enterprises' operational right, and separation of the functions of the government's economic management personnel and functions of owners of assets, smooth out the relations of the property right of state-owned assets and set up a new target and pattern for management of state-owned assets, thus to create the conditions for perfecting the enterprises' operational mechanism.

### (1) Important points of the new state-owned assets management system

Taking state-owned assets as an objectively existing enormous material wealth, how to rationally allocate them, effectively operate them and display their role will surely become an important problem requiring solution in the reform of our country's economic system.

In establishing the new system of management of state-owned assets in the course of reform of the economic system, first we should firmly insist on the precondition of developing an economy of the socialist public ownership system with ownership by the whole people as the leading factor and, based on the demand of developing a planned commodity economy, take the input of state-owned assets (capital funds) as a principal economic object and surrounding the nucleus target of enhancing the operational and use benefits, carry out specialized management with clearly defined responsibilities; second, following the intensified development of reform of the economic system, we should make the state-owned assets of an operational nature steadily grow in their ability in circulation, competition and value-increment, strive to rationally allocate the assets according to the principle of seeking the best effects, put the assets in operation at a high efficiency rate, legalize the management of assets and, based on the principle of the union of planned economy with regulation by market mechanism, make the work of managing state-owned assets become

an important measure to strengthen the planned economy and enforce macroeconomic regulation and control; and third, we should set our eyes on fully displaying the role of state-owned enterprises, particularly the backbone role of the large and medium-sized enterprises. When the state formulates policies and statutes and establishes various kinds of management system and when the various relevant departments carry out piloting on reform, they should all earnestly consider whether or not they are beneficial to invigorating the enterprises, developing production and enhancing the economic effects. When measuring and examining the accomplishments of work on the part of organs at various levels handling management of state-owned assets, the yardstick and used should also be whether or not they have enlivened the enterprises and whether or not the operational effects of the state-owned assets have been enhanced.

**(2) Establishment of a restrictive mechanism on property right of state-owned assets**

At present reform of our country's economic system has entered an important stage. To push the deepening of the reform of our economic system, a key problem is to study and solve the problem of property right of state-owned assets and gradually set up a restrictive mechanism on the property right of state-owned assets.

On the microeconomic level, the restrictive mechanism on the property right of state-owned assets must make the restrictive mechanism on ownership right enter the enterprise and rationally demarcate the functions of the owners and of the operators. On the one hand, the necessary autonomous power in operation of the operators must be maintained and protected, improper intervention on the operators must be banned, and the management enthusiasm of the operators must be put onto full play; on the other hand, the ownership right must be used to restrict the actions of the operators, a normal restrictive and balancing mechanism must be set up between the benefits of property right and salaries, wages and bonuses, and it must be ensured that the right and benefits of the owners are not violated. On the middle-level, we should open up the operational activities of the state-owned assets. Under the conditions of the socialist planned commodity economy, and based on the development trend of the market and production, we should mechanically and energetically readjust the allocation of the assets in existence, remove the possibility of waste and losses caused by assets being stagnant and remaining idle and look for, and appoint, able operators, fully arouse their enthusiasm so that they may maintain a high rate of profit on the assets under their management. On the macroeconomic level, we should, based on the demand of development of the national economy and in regard to the whole state-owned assets of an operational nature maintain an economically rational character in their disposition and allocation from the two sides of increasing the amount of input and readjusting the existing volume, thus ensuring the rationalization of the industrial structure and attaining the target

of enhancing the social effects. To perform this work well, it will require full cooperation from all sides and there must also be comprehensive coordination from the reform measures.

**(3) Gradual formation of a state-owned assets management system**

In accordance with the spirit of a session of the seventh NPC, the State Council has formally established the national state-owned assets management bureau and localities at various levels have also set up their corresponding state-owned assets management organs, thus forming the pattern of a new state-owned assets management system. However, there is still a considerable distance from the establishment of a state-owned state-assets management system which clarifies the duties and responsibilities and has a full-range coverage of all the assets. This is to say, from now on such a system must clearly specify what kind of work the property right organ and representative at each and every level should take charge of, to whom they are responsible and what their responsibilities consist of; all the state-owned assets, in whatever form, for whatever use, or distributed in whatever place, must be under the special management of an assets management organ or property right representative; there must be no state-owned assets in existence which are without jurisdiction. Prior to the complete conversion of the functions of the various departments and the further demarcation of the power and jurisdiction between the central and local governments, we should entrust the industry and trade control departments and the local governments to separately set up capable organs to take up the work first and subsequently to make the necessary readjustment based on the conditions of the progress of reform of the general structure.

**Obstacles to Economic Readjustment**

*HK0806054190 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 3, Mar 90 pp 4-6*

[Article by Lu Yonghua (7120 8673 5478): "Difficulties and Obstacles in Further Economic Readjustment"]

[Text] As in all other work, economic readjustment will encounter unexpected difficulties and obstacles with every step forward. In order to push forward the work of economic readjustment, effective measures must be taken to overcome difficulties, remove obstacles, and turn unfavorable and negative factors into favorable and positive factors.

As things now stand, the difficulties and obstacles we encounter in economic readjustment mainly come from the following areas:

**I. Hoping to Achieve Quick Success in a Short Time**

Hoping to achieve quick success in a short time is a long-standing weakness of ours in economic work; it is the biggest ideological stumbling block in our present economic readjustment.

Guided by this kind of mentality, we are prone to be short-sighted in action, hoping to achieve quick success and instant benefits. We tend to pay attention to superficial phenomena and immediate benefits alone in economic readjustment and overlook the need to tackle deep structural problems with intrinsic characteristics and consider issues from the long-term perspective. We cannot fundamentally tackle the problems of structural imbalance of the national economy and economic instability in this way.

Guided by the hope to achieve quick success in a short time, we tend to take the phenomena as the essence and the secondary aspects as the principal aspect, and make mistakes in diagnosing the "disease" and in prescribing "medicines" when new situations and new problems arise in our economic life. Consequently, our economic readjustment measures either do not have a clear aim, or are weak and feeble. The result may turn out to be contrary to our expectations, and we may end up with reactivated old problems rather than resolving the new problems. New and old problems combined will further aggravate inflation, worsen the economic environment, and make it all the more difficult to further carry out economic readjustment.

Dominated by the hope to achieve quick success in a short time, we become panicky and act rashly when economic readjustment do not produce the desired results. Rather than thoroughly studying and analyzing the nature and causes of the problems, we resort to drastic measures to tackle the new situation and new problems, to expansionist policies when retrenchment is required, and to further tightening up the reins when suitable loosening of the grip is in order. Mistakes in measures will not only interfere with the normal economic order, but will lead economic activities into new areas of mistakes and set off a new round of inflation, thereby rendering the economic improvement and rectification fruitless.

In the past, some of our comrades who had taken a direct part in discussions on the policy of economic readjustment were also influenced by the hope to achieve quick success in a short time. They saw economic improvement and rectification as a short-term task, thinking that it could be completed in two or three years. Hence, the measures they adopted were mostly short-term ones with the emphasis on immediate effects, and long-term interests were slighted. That was the cause of the repeated succession of inflation and readjustment since the commencement of reforms.

Historical experience tells us time and again that we must not hope to achieve quick success in a short time in economic development and reforms, and neither should we hope to achieve quick success in economic readjustment. Some of the problems which have cropped up in our economic life have been accumulating over several years, and it is impossible to resolve these problems within a short time. On this issue, the documents of the Fifth Plenary Session clearly stated: "In three years or a

somewhat longer time, we should concentrate our energies on doing a good job of economic readjustment and deepening reforms so that we can maintain steady and well-coordinated economic development." We must enhance our understanding of the protracted, complex, and arduous nature of economic readjustment. Our readjustment measures must not only resolve the present problems and embody the immediate interests of the state, the collective, and the individuals, but must provide the answer to the long-term objective of readjusting the imbalances between major economic sectors; embody the long-term interests of the state, the local governments, the enterprises and the individuals; and arouse the enthusiasm and initiative of the whole party and the whole country in implementing the policies and measures of economic readjustment. At the same time, we should keep the public informed of the objectives of economic readjustment and the difficulties and problems likely to be encountered so they will be aware of the difficulties confronting the state and the enterprises, have a clear idea of their responsibilities, understand and support the readjustment policies adopted by the state, practice austerity for several years, and strive to overcome the present difficulties with one heart and one mind.

## II. Organizational Decentralism

Decentralism is a kind of localism and small-group mentality; one may even call it expanded individualism. This behavior stresses local interests at the expense of overall interests; stresses the interests of the localities, departments, and enterprises at the expense of national interests; and goes against the spirit of centralization and unity emphasized by the central authorities during the period of economic readjustment. It is a very damaging behavior and ought to be resolutely opposed.

In the wake of the deepening of rural and urban reforms since the Third Plenary Session of the 11th CPC Central Committee, the reform of the macroeconomic structure has also been launched. Steps have been taken to put an end to the drawbacks of overconcentration and excessive control, and separate management by central and local authorities has been introduced step by step in planning, public finance, foreign trade, and other departments. Due to the excessive, premature, and overhasty devolution of administrative power to lower levels, however, a new system of macroeconomic regulation and control has not been established in time. The feebleness of macroeconomic regulation and control measures means that we have difficulty regulating and controlling the swelling of investment, credit, and consumer demands in the localities and in various departments and enterprises. When the central authorities decided to carry out economic readjustment on a national scale, the local authorities, departments, and enterprises often tried to resist readjustment by stressing the "peculiarities" of their own localities, departments, or units. Or, they would engage in "devising countermeasures to policies formulated by the higher authorities" and try by all and every means to avoid macroeconomic regulation and

control by the state, doing what suits themselves instead. The postponement of economic readjustment in 1979 and 1980 and the setbacks suffered in economic readjustment in 1985 and 1986 all had something to do with decentralism. In 1988, the central authorities urged the local governments to conscientiously implement readjustment measures and curb inflation. Driven by selfish motives, some localities and enterprises tried to corner or blockade the market and arbitrarily announced price hikes to increase their revenue or profits. As a result, they pushed prices up across the country. It can thus be seen that the presence and development of decentralism will directly affect the effects of macroeconomic regulation and control and the level of economic readjustment, and undermine the sustained, steady, and well-coordinated development of the economy.

In order to conscientiously adhere to the spirit of the decision of the Fifth Plenary Session of the 13th CPC Central Committee, we must strengthen democratic centralism and oppose decentralism. To do this well, we must pay attention to the following:

1. We must correctly handle the relationship between the central and local authorities and between the higher and lower levels. During the period of economic readjustment, the central authorities must pay due attention to the interests of various localities and departments, while the localities, departments, and enterprises must take the situation as a whole into consideration. This will ensure the implementation of the readjustment measures of the central authorities. In short, the enthusiasm of the central and local authorities must be brought into play. The central and local authorities must formulate specific plans for the implementation of the "Decision of the CPC Central Committee on Further Improving the Economic Environment, Straightening Out the Economic Order, and Deepening the Reforms." At present, the central authorities must concentrate appropriate power and financial and material resources and stress the solemnity of state plans to stabilize the economic situation as a whole. All localities and departments must do their best to complete tasks handed down by the party Central Committee and the State Council. On no account must they give themselves a discount "according to their needs," or do what suits them by feigning compliance.

2. Party and government organs at various levels must strengthen their collective leadership. In economic readjustment, leaders at various levels shoulder arduous tasks and are faced with a complex situation. Only by relying on collective wisdom and experience can they have a correct grasp of the situation and avoid detours and mistakes in making policies and solving problems. All major issues must be discussed and decided on collectively. When a decision has been made, it should be resolutely implemented through division of labor with individual responsibility.

3. Organizational discipline must be strengthened. Party and government cadres at various levels must observe

organizational discipline: Individuals are subordinate to the party organization, the minority is subordinate to the majority, the lower party organizations are subordinate to the higher party organizations, and the whole party is subordinate to the party Central Committee. We must resolutely oppose departmentalism and decentralism and see to it that all orders are obeyed and all prohibitions are observed.

4. A macroeconomic regulation and control system must be established. In order to strengthen the effectiveness of macroeconomic regulation and control and ensure the implementation of the principles, policies, and measures of the central authorities, a system of macroeconomic regulation and control must be established at the central as well as local levels during the period of economic readjustment. The central authorities must have the necessary means of regulation and control, and so must the local authorities. However, the local authorities must subordinate themselves to the central authorities and take the whole country into account. They must not do as they please or "persist in their old ways."

### III. Theoretical Research Lags Behind Practice

China has already experienced three rounds of inflation and economic readjustment since the 1980's. What is the cause of such a frequent repetition of inflation and loss of control? What theory should we use to guide our economic readjustment? These questions are both clear and unclear. The reason is that our theoretical research is lagging behind practice and cannot guide practice. We recognize some of the problems that have cropped up in the course of economic readjustment, but have no idea how they have come about.

The aim of the current economic readjustment is to readjust the relationships between various major economic sectors, curb inflation, and see to it that the economy enters the orbit of sustained, steady, and well-coordinated development. Very little has been done in the way of theoretical research on the ways of curbing inflation and the desirable proportions and relative coefficient between various economic sectors, and existing theoretical models cannot be used to guide practice. Why is it that the control of money supply has successfully curbed inflation in developed Western countries but has produced unexpected results in China? The reason is that we mechanically copied economic theories of the West. The formula currently employed by us in controlling money supply (rate of increase in money supply = economic growth rate + rate of inflation) comes from monetarism in the West. Western economists have worked out this formula for calculating monetary growth on the basis of a matured market, a steady rate of money flow, and well-developed monetary tools, which are absent in China. In designing a formula for the calculation of monetary growth in China, the following factors should be taken into consideration: China is still in the process of monetization; Chinese markets are still at the stage of expansion and growth; negotiable instruments have yet to be introduced in market transactions; and

monetary tools are not well-developed. In other words, our national conditions must be fully taken into account when designing the formula for the calculation of monetary growth in China. This shows that the strengthening of theoretical research is a task of top priority.

#### IV. Some Practical Problems Encountered in Economic Readjustment at the Present Stage

These include the relationship between the curbing of inflation and price reform; the relationship between the curtailment of investment in fixed assets and the maintenance of economic development stamina; how to guarantee financial revenue when industrial growth is plummeting; how to maintain economic vitality in a weak market situation; how to determine the extent to which monetary growth should be limited; how to provide jobs for the additional 15 million people (in urban areas) awaiting employment; and so on. These are problems that must be considered and gradually resolved in economic readjustment at the present stage. The solution of these problems will help put right the relationship between economic readjustment on the one hand and economic construction and the deepening of reforms on the other and ensure the realization of the goals of economic readjustment. Some of the problems listed above are problems of ideology and understanding. Some are theoretical problems, while others are specific problems encountered in actual work. These problems can only be tackled when the whole party and the people of the whole country unite together, work as one, and wage an arduous struggle.

#### Respect for Law of Value Discussed

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2 May 90 p 1

[Article by Liu Ronglun (0491 3310 3229), vice president of the Institute of Finance and Trade of the Chinese Academy of Social Sciences: "The Foundation of 'Integration' Is Respect for the Law of Value"]

[Text] The basis for the integration of the planned economy with market regulation is respect for the law of value. Only by integrating the two will it be possible for the law of value to organically combine the advantages of planned economy with the active role of market regulation.

The law of value is the common law governing the commodity economy and one of the laws governing planned commodity economy on the basis of public ownership. Many malpractices resulted from the old planned economy characterized by excessive and too rigid centralization, but it also neglected the law of value, since mandates were issued based on subjective wishes, which gravely affected the plan's scientific quality, flexibility and effectiveness, and it reduced to naught the positive role of consumption and market mechanism on production and allocation of natural resources. All this

resulted in the "separation" of the market from the plan, and eventually harm to development of the socialist economy in a planned way.

The integration of planned economy and market regulation involves three forms, a mandatory plan, a plan of guidance, and market regulation. If a common groundwork is absent for the three forms, "compartmentalization" is inevitable, while inherent, and organic integration and the shaping of "resultant of forces [he li 0678 0500]" is out of the question. In China's actual economic life, prices for some products in planned distribution can be very low, while prices of products in the same categories outside the plan can be abnormally high. Especially, the "dual-track" prices for production materials, and the unsound effects of distribution and circulation stamped with "compartmentalization" which have surfaced in recent years have been the consequences of "each going his way," and the failure in the mutual coordination between the plan and market on the basis of the law of value.

Between the plan and the market is a relationship of mutual effects and unification. Such unification is built on the basis of the law of value. With a socialist planned commodity economy, planned regulation will beyond a doubt create the necessary macroeconomic environment for the active role of the market mechanism, and guidance of the plan will become an important channel and means to correct and overcome the negative role of blind market regulation. While market regulation will in turn provide important parameters and grounds for planned regulation, and the plan's effects on the market will eventually be realized through the market's supply-and-demand relationship and its changes in prices. Without the law of value, the common groundwork, the mutual effect and unification between the two cannot be integral, but will bring about quite the opposite results.

Therefore, we can see that the organic integration of planned economic and market regulation is to a large extent an issue of whether or not or how to apply to the law of value. Planned regulation is in essence the result of conscious application to the law of value, while market regulation is the manifestation of the spontaneous function of the law of value. Therefore, attention should be paid to the former, while the latter will be standardized through the former's function. Integrating planned economy with market regulation is, in a certain sense, a process of consciously and effectively applying the spontaneous function of the law of value, and its purpose is the better development of the planned commodity economy on the basis of public ownership.

#### Statistics Bureau Reports Inflation Lowest in 5 Years

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1424 GMT 31 May 90

[Text] Beijing, May 31 (XINHUA)—China has won its battle against runaway inflation with inflation dropping to the lowest level of the past five years.

A spokesman for the State Statistical Bureau told XINHUA today that the retail price index climbed 391 percent in April on a year-to-year level.

The spokesman said that over the past month, prices in urban areas rose by only one percent while prices in rural areas increased 4.2 percent.

The statistics were compiled from nationwide surveys conducted by more than 12,000 people on prices of 402 commodities and 29 services in 226 cities and counties, according to the spokesman.

Since the beginning of the year, the government has adopted a series of measures to curb price hikes, strengthen macro-management and improve market order in a bid to stabilize the prices of daily necessities and service.

The government has also stepped up its crackdown on profiteering and illegal business dealings.

Inflation in the first two months was held to 4.1 percent on a year-to-year level, dropping to 3.3 percent in March and 3.1 percent in April.

Zhang Pan, a noted economist and deputy director of the Development Research Center under the State Council, said inflation was halted with a great decrease in the issuance of bank notes.

China issued 21 billion yuan in bank notes in 1989 compared to almost 70 billion yuan in 1988. The first four months of the year saw a net withdrawl [as received] of bank notes from circulation.

Statistics from urban and rural markets show that retail prices are basically stable.

Food prices in April were up 1.6 percent on a year-to-year level. Grain prices dropped 2.6 percent while nonstaple food prices increased 3.2 percent and cigarettes, wine and tea were up 1.3 percent.

Sales of clothing and durable goods, especially summer season commodities, improved in April, pushing clothing prices up 7.7 percent for the month. Analysts said that although a few regions saw lower prices for some services this year, price increase in violation of government restrictions continues, leading to sharp price increases for services, which rose 12.1 percent in April compared with the same month in the previous year.

However, the analysts are optimistic about reaching the annual target set by the government to further curb inflation and retail price hikes—much lower this year than last year.

They predict the price hikes can be kept within 10 percent or even as low as five percent in the first half of this year if the government does not put forward massive price increase schemes in the present market situation.

The analysts base their predictions on several factors:

- grain prices on rural markets will continue drop because of increasing supplies, decreasing demand and a large supply of surplus grain held by farmers.
- meat, poultry and egg prices will remain relatively stable with sufficient supplies in the first half of this year.
- prices for consumer goods will not rise drastically because the sluggish market will not soon improve and local governments have tightened controls over market prices.
- price increases for farm supplies will be moderated, especially for products controlled exclusively by the state.

## PROVINCIAL

### Beijing Economic Development Report

SK0606000190 Beijing BEIJING RIBAO in Chinese  
19 Mar 90 p 2

[“Excerpts” of report given by Wang Jun, chairman of the Beijing Municipal Planning Commission, at the third session of the ninth Beijing Municipal People's Congress on 3 March 1990, on fulfillment of the 1989 Beijing Municipal Plan and on 1990 draft national economic and social development plan]

[Text] Fellow deputies:

Entrusted by the municipal government, I would like to submit a report on the fulfillment of the 1989 Beijing Municipal plan and on the 1990 draft national economic and social development plan to this session for discussion.

#### 1. The Fulfillment of the 1989 Plan Was Good in the Course of Improvement, Rectification, and Deepening of Reform

The year 1989 was a very unusual year. It was also a year during which we won victory in a united struggle. During that year, the municipal government united with and led the people throughout the municipality to eliminate all sorts of interferences, particularly the serious interferences caused by disturbances and counterrevolutionary rebellion during late spring and early summer, resolutely implemented the general principle formulated by the Third Plenary Session of the 13th CPC Central Committee, on improving the economic environment, rectifying the economic order, and comprehensively deepening reform, conscientiously implemented the decisions of the fourth and fifth plenary sessions of the 13th party Central Committee, and achieved fairly good results in improvement and rectification. The political situation became increasingly stable and the economic situation was good. The fulfillment of the 1989 plan approved by the second session of the ninth municipal People's Congress was good. The whole municipality's gross domestic product was valued at 45 billion yuan,

which was 100.4 percent of the plan, showing an increase of 4.2 percent if calculated in terms of comparable prices. The total industrial and agricultural output value reached 53.7 billion yuan, an increase of 9.2 percent. After prefulfilling a group of targets set in the Seventh Five-Year Plan, including the total industrial and agricultural output value, the total retail sales of commodities in social, financial revenues, and foreign export trade in 1988, we also prefulfilled a group of targets in 1989, including the utilization of foreign capital, the total completed housing and residential areas, the building of commercial networks, the total postal and telecommunications business, and the development of fuel gas users.

First, social demands were effectively controlled.

The scope of investment in local fixed assets was remarkably cut back. According to initial statistics, in 1989 the total social investment in fixed assets in the localities reached 6.51 billion yuan, a decrease of 32.8 percent from the previous year. The scope of capital construction of the state and collective units in cities and towns was kept within the state control target and the trend of unceasing expansion in the scope of investment in this field for many successive years was ended. The local projects under construction for the year were reduced by 800 from the previous year, and the newly approved projects only accounted for 31 percent of the number of projects of the previous year. We resolutely cut back the number of nonproductive projects such as office buildings, auditoriums, and hotels. Local projects with a total area of 10.8 million square meters were initiated or continued, which showed a cutback of 1.54 million square meters from the previous year. The whole municipality's housing projects which were initiated or continued totalled 24.51 million square meters in area, which showed a cutback of 1.91 million square meters from the previous year. The whole municipality completed 10.47 million square meters of houses of all sorts, of which 5.775 million square meters were residential houses.

The excessively rapid growth of consumer demands was controlled. In 1989, the whole municipality's expenditures for paying four kinds of wages totaled 13.86 billion yuan, up 13.5 percent over the previous year, which showed that the scope of increase was reduced by 12 percentage points. The number of workers of state units in the localities was controlled at the year-end level of the previous year. We sorted out and sent back some 284,000 peasants from other localities, prefulfilling the annual plan. The consumption of social groups was effectively controlled. The total consumer goods sold to social groups during the year only showed an increase of three percent over the previous year and the scope of increase was reduced by 25.7 percentage points.

The financial and credit retrenchment principle was effectively implemented. In 1989 the financial revenues totaled 7.1 billion yuan. Thus, we attained the goal of achieving an increase of four percent over the previous

year. Financial expenditures were controlled within the targets in the budget after readjustment. Banks conscientiously implemented the credit policy of controlling the overall supply and demand and readjusting the structure, supported the urgent needs for industrial and agricultural production and the commodity circulation. The whole municipality's total bank savings increased by 10.15 billion yuan as compared with the beginning of the year. The urban and rural savings deposits increased 5.04 billion yuan over the beginning of the year. The loans were kept within the state control target.

Second, industrial and agricultural production maintained an appropriate growth rate, the supply of essential products increased, and market supply was better than previous years.

Agricultural production increased continuously. We overcame serious natural disasters, and reaped a bumper harvest in grain production for 12 years in succession, with the grain output of last year totaling 2.392 million tons, setting another new record. The output of non-staple foods, such as vegetables, pigs, milk, fresh eggs, and fresh-water fish, exceeded the quotas, and showed steady growth over the preceding year. Last year, 16 farms raising Zudai-strain lean-meat pigs were newly built, the main body of a vegetable research center was completed up to the international level, installation of equipment of the Beijiao Dairy Product Plant was accelerated, and three small chemical fertilizer plants' conversion of production lines to produce urea and monoammonium phosphate was also stepped up. Township enterprises conducted initial adjustments in line with industrial policy, and strove to overcome numerous difficulties, thus continuously developing.

The industrial product mix was further adjusted, and industrial growth became more rational. The total industrial output value came to 44.59 billion yuan, an increase of 6.5 percent over the preceding year, but slightly lower than the planned eight-percent growth rate. Judging from the situation for the whole year, the growth rate was fairly appropriate. The output of energy resources and raw materials, such as electricity, raw coal, steel, gasoline, kerosene and diesel oil, grew steadily, the production of agriculture-oriented products, daily necessities, and good-quality consumer durables increased at varying degrees, and the production of intensively processed products and products with high additional value of the textile, electric, and machinery industries rose substantially. The state-assigned mandatory plans for production of some goods were all fulfilled, but the production of more than 60 kinds of products covered by guidance plans was below the quotas or lower than the preceding year due to market sluggishness, reduction of investment, shortages of raw materials, funds, and means of transportation, and the influence of the turmoil and rebellion. Last year, a number of industrial projects, including the first-phase project of the Beijing-Matsushita Color TV Tube Plant and the Huadu Brewery, were completed and commissioned, and were

put into trial operation, thus increasing the potential for sustained industrial production.

Market sales remained stable, and commodity supplies were fairly good. The amounts of grain, edible oil, pork, edible sugar, and other major commodities kept in stock were fairly large, and supplies of most industrial goods for daily use were sufficient. The year-end volume of commodities in stock showed an increase of 22.6 percent over the preceding year. In 1989, the volume of commodity retail sales totaled 26.67 billion yuan, a 13.8-percent increase over the preceding year, but lower than the planned target of 28 billion yuan due to market sluggishness in the second half of the year. Commercial and service shops increased by 10,000 last year. The Changan shopping center, the Yongan stationery wholesale market, the No. 2 Soybean Product Plant, and some oil and grain depots were built, thus further improving the conditions for services and supplies.

Third, we strictly controlled the rises of retail prices, and attained the goal of making retail price rises "notably lower" than the preceding year.

In 1989, the municipal government adopted a series of measures to strictly control price hikes. Major ones were persistently taking comprehensive measures to tackle the problems in prices, and enforcing the system of responsibility for management of price control targets; stabilizing the prices of staple and nonstaple foods and those of the daily necessities purchased by coupons; increasing financial subsidies; placing some major commodities under exclusive control of designated departments; further strengthening management of the decontrolled prices of commodities and the charges for public utilities; strictly enforcing the price-increase application and report system; and formulating and enforcing the "Beijing Municipal Regulations for Price Supervision and Inspection," and strictly investigating and handling law and discipline breaches. Last year, our municipality's retail price rise index declined month by month from 28.9 percent in January to 7.6 percent in December, averaging 18.5 percent in the year, 3.4 percentage points lower than the preceding year. The prices of the 47 kinds of basic daily necessities for the people rose by 8.6 percent, a growth rate nine percentage points lower than that of the preceding year, thus attaining the goal of making price hikes "notably lower" than the preceding year.

Fourth, we persisted in opening to the outside world, and foreign economic relations and trade continued to develop.

We overcame the grave difficulties created by the "economic sanctions" imposed by some countries in the West, and continued to make great progress in foreign economic relations and trade. During the year, we approved the establishment of 185 Chinese-foreign joint ventures and cooperative enterprises, and exclusively foreign-funded enterprises, rising by 25 percent over the preceding year, and 90 percent of these enterprises were

productive projects. We approved 31 foreign loan utilization projects involving \$400 million, which was the greatest annual amount of foreign funds we borrowed. In 1989, the actual amount of foreign capital we used through various measures was \$500 million. The volume of export totaled \$1.16 billion, up by 13.6 percent over the preceding year, and representing a new step. Tourism was gravely influenced by the turmoil and rebellion, and the number of tourists and the foreign exchange earned from tourism failed to reach quotas.

Fifth, great success was made in the construction of urban infrastructural facilities.

Last year, 33 key construction projects were completed. The No. 2 generating unit, a renovation project of the Shijingshan Power Plant, was put into operation. The first-phase project of the No. 9 Water Works, which covered two sets of equipment, reached the target of a stable daily water supply of 340,000 tons, and the Changxindian Water Works was by and large completed, thus easing the municipality's strained water supply. Eight new main roads totaling 56 km were built in urban and rural areas. The policy decision on road construction aiming at "making the transportation of the areas on the two sides of the city unimpeded to ease the congestion in the central area" was implemented smoothly, the second outer belt road in the eastern and southern parts of the city was completed and opened to traffic, and preparations for the project concerning the transportation of the "west side" of the city were accelerated. The Beijing-Tianjin-Tanggu Expressway was built strenuously according to the plan. In public utilities, a peak load boiler for heat supply and a number of boiler rooms in some areas were built to increase the floor space with central heat supply by 1.8 million square meters, and the floor space of areas with heat supply by 5.2 million square meters; and the number of households with gas supply through pipes increased by 113,000, the greatest annual increase. Telephone subscribers in urban areas rose by 38,000, making the total number of subscribers reach 276,000. The infrastructural facilities of suburban towns were also improved.

Construction of the major and auxiliary projects for the Asian Games proceeded smoothly, and 27 of the 31 stadiums and gymnasiums for matches and exercise were completed, with the remaining to be completed in the first half of 1990.

Sixth, new achievements were scored in greening and beautifying the city, and protecting the environment.

During the year, 2.73 million trees were planted, 1.48 million square meters of lawns were laid, 1.16 million perennial flowering trees and Chinese roses were planted, 24.7 km of roads around the city proper were lined with trees, and nine strips of land were afforested, thus increasing the acreage of green land by 643 hectares. The percentage of tree coverage in urban areas reached 26 percent, and the per-capita amount of green land expanded to six square meters. The tasks of planting

trees in suburban areas were also overfulfilled, with 200,000 mu of hills afforested and access to them restricted, and 16,215 million trees planted in plain areas, around farmland, houses, villages and ponds, and along roads.

The 10 aspects of work for environmental protection for 1989 as decided on by the municipal government were accomplished.

Seventh, new progress was achieved in education, science and technology, and other social undertakings.

In 1989, the planned quotas for the enrollment of primary schools, junior middle schools, secondary vocational and technical schools, municipal regular schools of higher learning, and schools of higher learning and secondary specialized schools for adults were by and large fulfilled. We continued to prevent "two-shift" primary schools from emerging last year. The number of classrooms increased by 688 in the year, registering the largest annual increase. The classroom buildings of the Xizang Middle School, the No. 127 Middle School, the No. 12 Middle School, and the No. 166 Middle School, and the Institute of Building Materials and Light Industry were completed according to plan. The teaching facilities of schools of higher learning and middle schools continued to improve.

Scientific and technological work was carried out continuously in line with the principle of making it serve the economic construction, urban construction, and urban management of the capital, and the various scientific and technological plans were implemented smoothly. During the year, 2,914 scientific and technological achievements were popularized and applied, and a number of achievements won the state scientific and technological progress award and the state spark award. The number of the enterprises in the new technological development experimental zone grew to 857, and the annual income of the scientific and technological enterprises that applied the results of science and technology to production and sales reached 1.8 billion yuan.

In medical care and public health, we further implemented the principle of emphasizing prevention, and the incidence of major contagious diseases dropped by 28.8 percent. In the construction of medical facilities, a building for administrative work of the Children's Hospital, a classroom building of the Tiantan Hospital, a building for outpatient service of Anzhen Hospital, a building for outpatient and inpatient service of Huimin Hospital, a building for inpatient service of Fuxing Hospital, a building for inpatient service of the Gerontological Research Center, and the Beifengwo outpatient clinic were completed according to plans. Hospitals in urban and rural areas increased their sickbeds by 1,661, making the total number of their sickbeds reach 51,900.

The year-end number of the permanent residents of the municipality totaled 10.21 million. The number of newborns were 16,000 fewer than planned, and the natural population growth declined to 7.21 per 1,000.

New achievements were scored in cultural and sports undertakings. Newly built district and county cultural centers, libraries, scientific and technological centers and archives totaled nine, making the total number reach 54. In sports, new success was won in launching extensive mass sports activities, training sports personnel, and the work for the Asian Games.

#### Deputies:

After one year of economic improvement and rectification, the economic situation of Beijing Municipality was taking a favorable turn. However, there were still many grave difficulties and problems. Major ones were as follows: The scale of investment in fixed assets was reduced by a fairly large margin, but it still exceeded the state-assigned control target and the capacity for urban infrastructural construction. The inordinately large growth of consumption funds was checked, but it was difficult to make it lower than the growth rates of national income and productivity within a short period of time. Market retail price rises were notably lower than in the preceding year, but remained rather high, and commodity prices had yet to be rationalized. Market sluggishness made some industrial enterprises operate under capacity, leading to the emergence of a few enterprises which suspended their production totally or partially, and a certain number of people who were out of work or waiting for work. At present, we should not only fully estimate the progress in the economic improvement and rectification but also clearly understand the grave difficulties and problems that affect our stable economic development, and should proceed from reality to make good arrangements for an economic and social development plan for 1990.

#### 2. Persistently Implement the Principle of Further Improving the Economic Environment, Rectifying the Economic Order and Deepening Reform, and Arrange Well the Economic and Social Development Plan for 1990

The year 1990 is a crucial year for economic improvement and rectification. The general guiding thought for arranging the plan is that we should resolutely implement the CPC Central Committee's "Decision on Further Improving the Economic Environment, Rectifying the Economic Order and Deepening Reform," and conscientiously implement the "Opinions on Implementing the Decision" adopted at the eighth (enlarged) plenary session of the sixth Beijing Municipal CPC Committee. In arranging the various targets, we should fully embody the requirement for gradually attaining the goals of economic improvement and rectification on the premise that political and social stability is maintained, and closely link it with efforts to deepen reform; make overall plans and take all factors into consideration for the work not only for this year but also for the next several years; not only make some adjustments in the existing relationship between various sectors in terms of economic interests but also take into consideration the capacity of

various sectors to ensure the adjustments; achieve comprehensive balance, with some adjustments conducted in a timely manner; and maintain plain living and arduous struggle, and be determined to lead an austere life.

The major tasks covered in the plan are as follows: We should continue to control the total demand, particularly the scale of investment in fixed assets and the excessively rapid increase in consumption funds. It is necessary to strictly control price hikes. We should vigorously readjust the economic structure, upgrade economic results, and strive to increase effective supply. We should continue to expand the scale of opening the country to the outside world; strive to maintain a sustained, steady, and harmonious development of the national economy; and make efforts to better fulfill the Seventh 5-Year" Plan.

The major planned targets for controlling the macro-economy are preliminarily arranged as follows:

We should maintain an appropriate economic growth; register a four-percent increase of the gross domestic product, a four-percent increase of agricultural production, and a five-percent increase of industrial production (including a seven-percent increase of the village-run industrial output.)

The increase in retail prices should be lower than that of last year.

Localities should arrange and control the scale of investment in fixed assets according to the state-assigned targets.

The volume of retail sales of commodities should increase by 12.5 percent and the foreign export trade should reach or surpass \$1.15 billion.

Revenue should reach 7.384 billion yuan, an increase of four percent. The scale of credits should be controlled within the state-assigned targets.

The newly added permanent population should be controlled within 150,000 people.

The 1990 draft plan is arranged as follows:

A. We should vigorously strengthen agricultural development, reap a bumper grain harvest, and ensure a steady increase in food production.

We should continue to implement the principle of "stabilizing the grain growing areas, focusing on increasing per unit area yield, and increasing the total grain output." A total of 2.3 million tons of grain output is arranged in the draft plan, and we should strive to produce more than 2.4 million tons of grain.

We should continue to regard food production as an important task and pay attention to it. The draft plan arranges to market 1.3 million tons of vegetables and trade 2.2 million head of hogs according to the forage supply capacity. The output of eggs and milk should basically maintain or exceed the level of last year. It is

necessary to stabilize the freshwater fish breeding areas, upgrade per unit area yield, and increase the output of quality fishes.

The major measures are as follows:

First, we should continue to consolidate, improve, and develop the agricultural production on a larger scale; and strive to increase economic results from it.

Second, the municipality, districts, counties, and townships should increase the input to agriculture. Meanwhile, we should positively encourage the peasants to increase the input to agriculture and continuously organize the peasants to repair water conservancy projects and develop farmland.

Third, we should continue to attend to the construction of grain production bases, occupying 3 million mu of area, and food production bases; develop the projects for popularizing water-saving and rich-yield techniques on a trial basis among low- and middle-yield farmland; develop and utilize sandy wasteland; and set up a group of villages, farms, and specialized teams where per mu yield of grain should reach 1 ton.

Fourth, we should try every possible means to ensure the supply of farm capital goods.

Fifth, we should positively popularize practical agricultural scientific and technological research findings and fully implement the principle of developing agriculture through science and technology.

Sixth, all trades and professions should continue to strengthen their support to agriculture.

Town and township enterprises should further implement the principle of "readjustment, consolidation, transformation, and improvement." According to the principle of improving the economic environment and rectifying the economic order and the requirements of the state industrial policies, we should continue to persist in the principle of coordinated development of urban and rural areas; and actually ensure an increase in the economic results through readjustment. The draft plan arranges that the town and township industrial output value should increase about 16 percent.

B. We should readjust the product mix, raise economic results, and maintain an appropriate increase in industrial production.

In the course of improvement and rectification, we must keep a proper rate of development in industry. Under the draft plan, the total industrial output value should increase five percent, and the power output as well as the output of such products as coke, rolled steel, cement, plate glass, small tractors, chemicals, chemical fibers, wool fabrics, refrigerator compressors, and kinescopes should increase at varying degrees. The output of such products as color televisions, tires, calcium carbide, and sewing machines was cut back in the plan.

We should particularly grasp the following tasks well:

First, in line with the industrial policy and market demands, we should conscientiously readjust the industrial and enterprise structures and the product mix, give priority to arranging the production of products essential for the people's livelihood, agriculture-oriented products, raw materials in short supply and energy, and products that can earn foreign exchange through export.

Second, we should comprehensively conduct municipality-wide activities on "strengthening management and bridging over difficulties during the year" among industrial enterprises and comprehensively raise the quality of enterprises.

Third, we should give priority to supporting and making proper arrangements for the production of large and medium-sized key enterprises, select 100-odd enterprises in the municipality that meet the requirements of the industrial policy and can increase effective supply and deliver more profits and taxes as enterprises which we must guarantee and should give special emphasis to supporting them with energy, funds, foreign exchange, materials, and transport service.

Fourth, financial departments and banks should raise some funds to support the commercial and materials supply departments to purchase a group of important raw materials in short supply and important readily marketable commodities.

Fifth, we should deeply conduct a "campaign" to increase production, practice economy, increase revenues and reduce expenditures, and realistically raise the economic results.

Sixth, we should increase the scope of investment in equipment replacement and technical updating, collect and concentrate a certain amount of funds for this purpose, and arrange more key technological transformation projects; firmly grasp the work of completing and putting into production a number of key capital construction projects and projects for equipment replacement and updating and the work of enabling a number of these projects to meet the production standard to strengthen the momentum for industrial production.

C. We should stabilize the market and make proper arrangements for the people's livelihood.

Maintaining a stable and brisk market in the capital and guaranteeing an ample supply of many varieties of commodities during the Asian Games period is the important task of this year's Beijing Municipal economic work. Under the draft plan, the total retail sales of commodities in society during this year should be valued at 30 billion yuan, up 12.5 percent over the previous year. We should fully display the role of state commercial units and the supply and marketing cooperatives as the main supply channels and reservoirs, persist in grasping the sources of commodities with one hand while

grasping market invigoration with the other hand and use sales to promote purchases and production.

First, we should conscientiously organize the sources of commodities, particularly the production, purchase, and supply of grain, oil, meat, eggs, and vegetables and other key products such as chemical fertilizer, agricultural chemicals, agricultural plastic sheeting, refined oil, and daily manufactured goods that are essential to the people's livelihood. Banks should adopt measures to readjust the interest rate of the credit funds and loans in an effort to support commercial units to expand the purchase of readily marketable commodities and to replenish the stock.

Second, we should expand the sales of commodities and guarantee market supply. We should guarantee that no commodities, which must be supplied according to cards and coupons and no products essential to the people's livelihood, will run out of stock or choice. At present, we should adopt all sorts of effective measures for promoting the sales of some commodities that cannot sell well, open up markets, and invigorate the circulation of goods.

Third, we should strengthen planned management and do a good job in market regulation and control.

D. We should continue to unswervingly and strictly control prices of goods and ensure that this year's price hikes should be lower than those of last year.

First, we should continue to carry out the system of responsibility for controlling prices of goods, strengthen the management of the goods with prices fixed or guided by the state, and appropriately concentrate power to controlling prices. The readjustment of the prices of commodities under the control of the municipality should be reported to the municipal government for approval.

Second, we should strive to stabilize the prices of the people's daily necessities and the labor service charges. The prices of rationed grain and oil must not be changed. The retail prices of rationed meat, eggs, and sugar should be basically stable.

Third, it is necessary to improve the system of recording the readjusted prices of commodities whose prices are higher due to decontrol.

Fourth, the variety of commodities to be sold at higher prices should be strictly controlled. Proceeding from the conditions that are conducive to balancing the prices of goods, promoting production and circulation, and reducing financial subsidies, we should appropriately readjust the very unreasonable prices of some commodities under the management of localities. However, we should reduce the influence of the annual retail price index to the minimum. Meanwhile, some very unreasonable service charges should appropriately be readjusted.

Fifth, we should conscientiously implement the "Beijing Municipal Regulation on Price Supervision and Inspection," pay more attention to inspecting and supervising prices of goods, and strictly punish the activities in violation of price discipline.

E. We should continue to control the scale of investment in fixed assets.

According to the targets assigned by the state at the beginning of this year, Beijing Municipality should invest 5.798 billion yuan in fixed assets of localities, a drop of 10.9 percent from the previous year. The municipality plans to build some new projects and restore the construction of some projects, covering an area of 21.5 million square meters, a drop of 12.3 percent. New projects should be controlled within 8 million square meters with a larger proportion of residential houses. The municipality plans to complete 8 to 9 million square meters of projects, including 4 to 4.5 million square meters of residential houses.

We should first ensure the construction of the projects that should be completed, positively arrange key continued projects, appropriately arrange the construction of residential houses, and not start new projects in principle. Except for some individual Sino-foreign joint ventures whose construction should be going on according to contracts, no new office buildings, hotels, guesthouses, and meeting halls should be built. We should continuously put the construction of urban infrastructural facilities in the first place; give priority in arranging agricultural, energy resources, education, public security, and health projects; and appropriately arrange the projects in other spheres.

To effectively control the scale of investment, we should adopt the following measures:

First, we should realistically strengthen the management of and the control over the scale of investment in fixed assets of localities.

We should continue to carry out the administrative leaders responsibility system, strictly control and assess the scale of investment according to targets, and strive not to surpass the scale.

This year, the construction of both new and continued commodity houses and commercial centers should be brought into line with the plan for investment in fixed assets. No unplanned projects should be developed; we must not build office buildings, hotels, guesthouses, and meeting halls in the name of building commodity houses and commercial centers.

The measures that were taken last year for regaining the rights to examining and approving projects should be continuously carried out.

Second, we should continue to conscientiously clean up projects and strictly control new projects. The projects whose construction has been placed on file but not started yet should comprehensively be sorted out, and

those whose construction can be postponed must be postponed. The projects that are not in line with the state industrial policies and regulations must be resolutely cancelled.

Third, we should consolidate the construction order, strengthen the supervisory functions of the departments in charge of overall work, standardize investment activities, and increase the returns on investment.

We should strengthen the unified management of land for urban and rural construction; continue to check the projects whose construction has been halted or suspended, and the land that was requisitioned a long time ago, but has not been used yet, and excessively requisitioned land, strictly keep the construction grounds within the state assigned target, and not exceed the target.

F. We should continue to strengthen the construction of urban infrastructural facilities, make cities green and beautiful, and protect the environment.

The auxiliary service projects for the Asian Games should be completed and commissioned on schedule. The expansion of Anhai Street and the Muxiyuan-Yuquanying section of the southern third ring road should be completed. The Beijing section of the Beijing-Tianjin-Tanglu expressway and the roads linking up with this section, the Beijing section of the Jingyu highway, the northern section of the Jingkai Highway (Shuangying Road), and the Fengtai overpass for railway and road use should be completed. The three systems covered in the first phase of the No. 9 waterworks project should totally be completed, making the waterworks' daily water supply capacity reach 500,000 tons. The project for diverting water from the eastern area to the western area should be completed. The completion of the project will alleviate the western industrial area's strain on the water supply. It is necessary to accelerate the power construction projects. The reconstruction of the Shijingshan power plant should be totally completed, and the No. 3 power generating unit of the power plant should be put into operation. It is necessary to realize the target for having more than 500,000 telephone-switching lines, as defined in the Seventh 5-Year Plan, and to complete the expansion of No. 301 and No. 401 telephone bureaus. Some 50,000 households should be supplied with gas through pipelines. It is necessary to continuously build the Fuxingmen-Xidan subway line, the Xidan subway station, the Gaopaidian sewage treatment plant, the Shijingshan power plant's heat supply lines, and the No. 3 liquified gas reserve plant. We should firmly attend to the pre-phase preparatory work for the "western-side" road project and the expansion of the No. 3 thermal power plant; and continuously strive to prepare for the supply of water and power, good transportation, and flat construction grounds for the Shisanling energy-storage power plant project and the No. 751 plant's oil gas project. These projects will start their construction as soon as the state approves them.

The draft plan for 1990 proposes the municipality should plant 1.5 million trees, grow 1.2 million square meters of grass, plant trees along both sides of 10 newly constructed roads, establish 10 new scenic spots and 15 green areas. The suburban districts should plant 12 million trees on farmland and along house and village sides, roadsides, and watersides; and close 200,000 mu of hillside land to facilitate afforestation.

We should comprehensively improve the environment further so as to welcome the 11th Asian Games with a beautiful environment where the air and water are clean. We should continuously and solidly do 10 concrete deeds for the people, attain the targets of not having black smoke nor dust in the air, comprehensively eliminate vehicle exhaust, maintain the cleanliness of potable water resources, and remove the hidden trouble due to pollution. By the end of June, the municipality should comprehensively fulfill the tasks for planting trees and improving the environment around the stadiums and gymnasiums of the 11th Asian Games and on both sides of main roads; and regularly assess the overall improvement of the urban environment.

G. We should positively expand the scale of opening the country to the outside world.

The foreign export trade should surpass \$1.15 billion. The municipality should strive to purchase more than 3.6 billion yuan of commodities. According to the changing demands of the international market, we should readjust the export commodity structure and expand the export of the municipality's products. We should strive to increase the export of precision and intensive processed products and high-technology products, and upgrade the proportion of machinery and electronic products in the total export products. It is necessary to promote the vigorous development of the tourist trade. The draft plan arranges to receive 800,000 to 1 million overseas tourists and earn \$500 to 600 million foreign exchange from tourism. It is necessary to continuously preserve, build, and develop tourist spots.

We should more positively and effectively utilize foreign capital. The draft plan preliminarily arranges for the scale of using foreign capital should increase 10 percent over that of last year through various means. We should run a group of Sino-foreign joint ventures, Sino-foreign cooperatives, and wholly foreign-funded enterprises; encourage and guide foreign businessmen to develop technologically advanced enterprises and some productive enterprises that can create foreign exchange through exports; and continue to strictly restrict the construction of nonproductive projects, such as commercial and catering centers. We should simultaneously develop large, medium-sized, and small projects; but focus on small and medium-sized ones. We should continue to improve the investment environment, conscientiously effect contracts, upgrade foreign businessmen's confidence in making investments in Beijing, and continue to promote the work of using foreign capital.

H. We should continue to develop education, science and technology, culture, public health, and physical education; and strictly control the population growth rate.

Institutions of higher learning under the jurisdiction of the municipality should more reasonably readjust the structure of specialized courses, and appropriately stabilize and control the number of students to be enrolled. It is necessary to appropriately reduce the number of postgraduates to be enrolled and to increase the enrollment quotas for excellent in-service personnel with practical experience. Ordinary institutions of higher learning under the jurisdiction of the municipality plan to enroll 10,000 students, maintaining the level of last year. Secondary specialized schools, technical schools, and vocational high schools should overcome the difficulties caused by exceeding the enrollment quotas for three years running, and conscientiously enroll students according to plans. The draft plan preliminarily arranges that the enrollment of ordinary high schools ranges from 30,000 to 33,000 students, that of secondary specialized schools is 12,000 students, that of technical schools is 9,000 students, and that of vocational high schools ranges from 15,000 to 17,000 students. Various categories of secondary vocational and technical schools should tap potential and strive to slightly increase their enrollment. We should tap potential to develop basic education and adopt overall measures to continuously ensure that primary schools do not have a two-shift system. Meanwhile, we should start studying the problems related to the sudden increases in the number of students entering middle schools that will crop up after 1991; and set forth overall measures for solving these problems. We should implement the principle of readjustment and consolidation to develop adult education, and persist in school-run orientations with the focus on training in-service personnel. For the next three years, the municipality will not approve the new institutions of higher learning for adults, such as universities for staff and workers and schools for managerial cadres.

We should continue to organize the implementation of the "spark plan," the "program for rejuvenating industrial techniques," the "program for urban construction and urban management science and technology," the "torch plan," and the "industrial experimental plan."

We should concentrate financial resources on the construction of medical and public health projects that should be completed. A total of 1,500 sickbeds should be added according to plan.

In the course of improving the economic environment and rectifying the economic order, we should continuously develop social, cultural, press, publication, and sports undertakings.

The population growth rate should strictly be controlled. We should further adopt effective measures for grasping family planning work, particularly birth control work in the rural areas. We should carry out the management

system on a responsibility basis among each level. The municipality's birth rate should be controlled within 14 per thousand. Meanwhile, we should strictly control the increase in the number of people moving from rural to urban areas.

I. We should continue to control the excessively rapid increase in consumption funds, properly arrange job-waiting personnel, and strictly control the number of people who change rural residence registration to an urban one.

We should strengthen the planned management of wage funds; further improve the methods of linking the wage bill with economic results, of bringing wage costs into line with the expenditure plan, and of fixing the wage bill; stop the reckless issuance of bonuses and materials and the expansion of the amounts and scale of allowances and subsidies. We should strengthen the management of wage bonuses and other individual incomes; collect bonus taxes, wage regulatory taxes, and personal income regulatory taxes strictly according to state regulations; and regularly conduct general examinations of wage funds. Based on developing production, we should continue to increase the staff and workers' cash income. Meanwhile, we should continue to control institutional purchasing power.

We should strengthen the overall planning and management of the labor force in urban and rural areas, and appropriately handle job seekers. We should continue to uphold the employment principle of "employment through the introduction of labor departments, organizing job seekers to run businesses in partnership on a voluntary basis, seeking jobs privately; and try every possible means to handle jobless people in urban areas." At the same time, we should strive to keep the year-end number of workers and staff members of state-run enterprises under the state-assigned target. Those workers who have lost jobs due to the suspension of production and under-capacity operation of enterprises should be handled appropriately through the methods of opening up more avenues of employment, developing diversified occupations, strengthening political, professional, and technical training, opening up public welfare labor service, and rationally readjusting enterprise structure. We should continue to clear up and curb unplanned employment, and discharge peasant workers coming to the municipality from other places. The above-quota employees must be discharged. When peasants come to urban areas for work, they must accept approval as well as "temporary living certificate" and "work certificate." The number of people whose rural residence registration is changed to urban residence registration should be curbed strictly and controlled according to plan through the method of integrating target control with strict implementation of policies so as to keep the number of such people within the target assigned by the state.

J. We should attend to conducting a comprehensive balance and strengthen macroeconomic regulation and control.

To firmly implement the principles of economic rectification and in-depth reform, we must successfully conduct a comprehensive balance and macroeconomic regulation and control in implementing the items stipulated by the 1990 plan. In accordance with the decisions of the municipal party committee and the municipal government, planning departments should strengthen the work of coordinating the routine work of financial, banking, and other comprehensive economic departments; and should seek unity of plans and actions among these departments in line with the demand of economic rectification and in-depth reform in order to ensure the smooth progress of economic rectification and in-depth reform and ensure the sustained, steady, and coordinated development of the national economy.

First, we should increase revenues, cut expenditures, vigorously organize savings deposits, and control the scale of credit.

The 1990 draft plan projects a four-percent increase in revenues and a three-percent increase in expenditures, thus leaving us an extremely arduous task in striking a balance between revenues and expenditures. We must strive to maintain the appropriate increase in the economy, pay attention to improving economic efficiency, strengthen tax collection and management, and vigorously organize revenues. At the same time, we should be determined to curb operating expenses, administrative expenses, and all other unreasonable expenditures. As for the prerequisite of continuously curbing the institutional consumption, we should link the control over the institutional purchases of certain commodities with production plans. We should conscientiously clear up and curb various kinds of subsidies. We should also implement a strict system of target responsibility, should specifically assign the targets of increasing revenues and reducing expenditures to all responsible departments, and should ensure the implementation of these targets.

Banking departments should keep the credit scale of various localities within the state-assigned targets in line with the demand of improving the economic environment, rectifying the economic order, and maintaining the appropriate development of the economy. On the basis of readjusting industrial policies, we should further readjust the credit structure; should ensure the demands of funds needed by key projects of industrial, agricultural, commercial, and foreign trade departments; and should avoid seeking simplicity and uniformity in all affairs. We should vigorously organize savings deposits by institutions and residents in order to increase the source of credit. In 1990, bank deposits should be 9 billion yuan more than last year, of which, savings deposits in rural areas should increase by 3.5 billion yuan. In 1990, the province should strive to withdraw 1.26 billion yuan from circulation. Banks should continue to clear up various kinds of loans; should resume the bank's honoring of collection of payments; should urge and help enterprises clear up "cross-defaults" of payments and make an inventory of warehouses; should

reduce the amount of funds occupied by enterprises; and should accelerate the turnover of funds. We should continue to develop the insurance service. This year, the revenues of insurance premium should surpass 500 million yuan.

Second, we should strictly control and reduce the scale of imports and strive to basically balance foreign exchange. 1) We should strictly examine and control the commodities to be imported. Localities should concentrate the use of foreign exchange to be obtained by themselves on importing grain, chemical fertilizer, and short-supplied raw materials that are urgently needed by the market at home, production, and construction. The raw materials and equipment that can be substituted by homemade ones will not be imported in principle. The import of such consumer goods as ordinary machinery and electronic products, cigarettes, wine, cosmetics, and soft drinks will strictly be controlled. 2) We should make a unified management of foreign debt. We will adopt the method of arranging imports after ensuring the repayment of debts and study to set up a debt repayment fund for reserve use.

Third, we should balance the supply and demand of goods and materials and ensure their distribution. We should adopt the following few major measures in order to achieve the work in this regard.

1) We should positively organize resource of goods and materials and organize the work to order goods according to the state plan and to develop resources of goods and materials not covered in the state plan. 2) We should continue to support agriculture according to the industrial policies and strive to ensure the supply of goods and materials for key products, key construction projects, and state-owned large and medium-sized enterprises. 3) We should readjust the structure of goods and materials in stock, reduce unreasonable factors, and accelerate the turnover of funds. 4) We should save and comprehensively use goods and materials. Meanwhile, we should strengthen the management of goods and materials, reduce consumption, and increase economic results. 5) We should continue to clean up and consolidate various categories of enterprises engaged in management of production means, and improve the laws and regulations governing the trade market.

Fellow deputies:

This year is a key year to realize the CPC Central Committee's target of improving the economic environment and rectifying the economic order. We should firmly believe that under the leadership of the Beijing Municipal CPC Committee, the people of all nationalities throughout the municipality will further implement the decisions adopted at the Fourth and Fifth Plenary Sessions of the 13th CPC Central Committee, enhance their belief, be inspired with enthusiasm, make concerted efforts, wage an arduous struggle, resolutely safeguard the capital's political and social stability, overcome the difficulties in course of advance, comprehensively fulfill the 1990 plan and the tasks as defined in

the Seventh 5-Year Plan, and welcome the convening of the 11th Asian Games with a brand-new mental outlook and new achievements in economic construction.

#### Guangdong Officials Disagree Over Economic Development Pace

90CE0264P

[Editorial Report] Guangzhou-based YANGCHENG WANBAO gave front page coverage on 16 May 1990 to a report stating that Guangdong governor Ye Xuanping differs with several of his provincial NPC deputies over the appropriate rate for the province's economic development.

According to the article, provincial NPC deputies have argued that in order for Guangdong's economic rectification to be realistic, planned targets for development should be increased. While they admit that the province's economic situation is still relatively serious, they are said to have pointed out that the economy has already begun to show signs of recovery in the first quarter this year and that rectification has been successful. They argue that although the province's 1990 economic and social development plan looks stable, the targeted rate of economic development is incompatible with actual circumstances. They caution that unless this rate is increased, new obstacles will be created that will hamper future economic development and income will be insufficient to cover interest payments. They also are reported to be advocating making full use of the special policies and flexible measures granted to Guangdong by the central government and warning against the tendency towards impatience for success during the course of rectification.

Governor Ye, on the other hand, is reported to favor a somewhat slower rate of development. He cautions that it is still too early to say that the province's economic situation has taken an upturn, despite the favorable first quarter and April increases in industrial output. He points out he and his colleagues still have not achieved macro-control of the market and doubts that second quarter production will be particularly high. He further notes that it is difficult to say whether the province will be able to maintain its good export situation. He therefore reportedly anticipates a longer period of difficulties ahead and thus advocates a more cautious approach in determining an appropriate rate for economic development.

#### Worries Persist Despite Falling Prices

90CE0265P Guanzhou NANFANG RIBAO 25 May

[Summary] The scale of Guangdong's retail price increases in 1990 has eased and the combined retail price index for the first four months of the year has shown an average monthly decline of 2.3 percent compared with 1989. April saw the largest drop in the combined retail price index—3.5 percent. Commodities registering the largest price falls in April were building materials, down 15.6 percent, foodstuffs, down 3.5 percent, and fuel, down 2.3 percent. Among the major commodities whose prices rose were clothing, up 7.1 percent and silk, up 7.1

percent. Analysis attributes these garment and textile sector price increases to raw material and cotton shortages.

While authorities credit rectification with the relatively large-scale fall in prices, some irregular elements are present in the economy. For example, overall industrial losses have increased production costs. Having the prices of retail goods fall without having the cost of their production fall correspondingly is not a good thing. Since the factors causing prices to rise have not been eliminated, other commodity prices could rebound. Furthermore, although the province's market slump has somewhat improved, the phenomenon of industrial goods' overstocking has begun to re-emerge. Leadership at all levels should therefore strive to maintain stable prices and seek to guarantee normal production operations. At no point should the situation be taken lightly.

### Hebei Clears Up Default of Payments

SK2506131790 Shijiazhuang HEBEI RIBAO  
in Chinese 28 May 90 p 1

[Excerpts] During the 50 days since the establishment of the leading group for clearing up debts from 6 April to 25 May, our province cleared up a total of 2.86 billion yuan of default on debts, accounting for 35.75 percent of the total amount of default of payments of 8 billion yuan at the end of March. Of this, 1.55 billion yuan was a sum which the people owed us and 1.31 billion yuan was a sum which we owed the people; 1.97 billion yuan was the debt inside the province and 890 million yuan was the debt outside the province.

After 50 days of clearing up work, the enterprise funds became less tight. The savings deposits of enterprises increased 1.5 billion yuan compared with the beginning of this year. [passage omitted] Thanks to the clearing up of debts, the increase in the amount of funds occupied by the production of finished products dropped compared with the same period last year. From the perspective of the banks, the clearing up of the default on debts has helped banks recover some loans and created conditions for preparing funds for purchasing summer grains, thus enabling the scope of loans granted by special banks to become more flexible. [passage omitted]

One thing that merits our attention is that while clearing up old debts, our province also increased more than 2 billion yuan of new debts. Therefore, all prefectures and cities and various departments must step up their efforts in clearing up the default on debts. [passage omitted]

### Heilongjiang Enterprises Suffer More Losses

SK1606050990 Harbin Heilongjiang Provincial Service  
in Mandarin 2100 GMT 23 May 90

[Text] Chen Yunlin, vice governor of the province, delivered a speech at the provincial work conference on making up deficits, which concluded on 23 May.

In his speech, he pointed out that efforts should be made to closely integrate the task undertaken by enterprises on

making up deficits with the programs of improving the economic environment, rectifying the economic order, and conducting reforms; and to regard the task as a center in the current and future economic work and as a big event in realizing social stability.

In his speech, Chen Yunlin stated that since the beginning of 1990, the number of money-losing enterprises covered by the budget across the province had increased on a large scale and almost reached a half of the total. If we fail to adopt effective measures to block the tendency, these enterprises will seriously pound at the plan of the national economy as a whole in the province and affect the fulfillment of the financial budget and even the stability of the society.

In his speech, Chen Yunlin urged various localities and departments to resolutely pay attention to key money-losing enterprises as they did to profit-making ones. As to key money-losing enterprises of various kinds and at all levels, governments and departments in charge of the work in this regard should assign leading comrades to take charge of the task, sign contracts on helping plants, and stay at selected grassroots units to help deal with their practical problems. Efforts should be made to orient the management or operation ideology to the program of improving the economic environment and rectifying the economic order, to readjust the structure of products and organizations, to enhance enterprise management, and to implement the policies of accelerating the pace of making up deficits so as to reverse the economic slump as soon as possible. We should further popularize the advanced experience gained by some enterprises in making up deficits, establish or improve leading groups and work teams in charge of making up deficits, implement the responsibility system in this regard, and should realistically do a good job in making up deficits and scoring results in the work.

At the work conference, 45 localities, departments, and enterprises, which were outstanding in making up deficits, were commended.

### Shanghai Project Separating Profits, Taxes, Pays Off

90CE0233A Chongqing TIGAI XINXI [SYSTEMATIC REFORM NEWS] in Chinese No 4, 20 Feb 90 p 7

[Article by Jiang Tiezh (5592 6993 2691) and Zhu Zeke (2612 3419 4430): "Shanghai Experiment in Separation of Taxes and Profits and Post-Tax Contracting Bears Fruit"]

[Text] Since March 1988 Shanghai has been conducting a pilot project consisting of a package of reforms—separation of profits and taxes, post-tax loan repayment, and post-tax contracting (hereafter abbreviated as "tax, loan, and contracting")—at five large- and medium-sized enterprises owned by the own people. They are Sifang Boiler Plant, Zhengtai Rubber Plant, Analytical Instruments Factory, Diamond Tools Factory, and Essence and Perfume Factory (comprising seven industrial enterprises that practice independent accounting).

The reform package essentially consists of the following: lowering the income tax rate from 55 percent to 35 percent; abolishing the regulatory tax; replacing pre-tax loan repayment with post-tax loan repayment; paying state assets use fees from post-tax profits, the amount of the fee to be based on the enterprise's fixed assets and the state-allocated working funds; introducing fixed-volume incremental contracting; establishing a loan repayment fund from profits retained by the enterprise; and pegging the total wages of the enterprise to its profits. With the consent of the enterprises, the municipality's Finance Bureau and the agency in charge of enterprises got together to fix the amount of state assets use fees payable by the enterprises to the state. A contract was then signed. All five enterprises agreed to a five-year contract to run from 1988 to 1992.

Judging from the results of the pilot project in 1988, the five enterprises had a gross value of industrial output of 786.195 million yuan, up 5.5 percent over the same period a year ago, and realized 13,468,700 yuan in profits, down eight percent compared to the corresponding period in the preceding year. They made loan repayments totaling 30.026 million yuan, up 16.7 percent over the same period a year ago and paid 12.861 million yuan in assets-use fees, 6.552 million yuan in energy and transportation funds, up 40 percent, and 47.143 million yuan in income taxes, down 28.64 percent. The enterprises retained a total of 37.132 million yuan in net profits, up 45.7 percent.

State incomes have undergone structural changes, but the total amount has largely held steady. The five enterprises paid 18.92 million yuan less in income taxes and were exempt from paying 22.86 million in regulatory taxes. On the other hand, they paid 22.14 million yuan more in circulation taxes and 1.88 million yuan more in energy and transportation funds. Between them, these two kinds of payments boosted government incomes by 24.02 million yuan. In addition, the enterprises paid 13.86 million yuan in assets use fees to the state. If we add up all these taxes, profits, and fees, the government received 4.9 million yuan less, a decrease of 2.4 percent. After contracting was introduced by enterprises owned by the whole people last year, total state revenues dropped four percent. The five enterprises kept 11.65 million yuan more in net profits and increased their loan repayments by 4.28 million yuan. This shows that the reform package of "tax, loan, and contracting" not only has increased the value of state-assets, but has also enhanced the ability of enterprises to repay their loans and improve their reserve of strength. The reform package of "tax, loan, and contracting" has stabilized the government's revenues. Furthermore, its structure helps promote macroeconomic regulation and control and mobilize the enthusiasm of enterprises for "double increases and double economies." The experiment in coordinated reform has served the following purposes:

1. Standardized the tax system and preserved the dignity of state taxation.

2. Concerning the distribution relationship between the state and the enterprise, it has unified the post-tax profit distribution methods of enterprises of various economic nature, which should facilitate competition.

3. Now that pre-tax loan repayment has been replaced by post-tax loan repayment, enterprises have more decision-making authority in investment and bear more responsibility for investment risks. This helps improve the returns on investment, curb investment excesses, and trim the scale of investment.

Judging from the experiment involving the five enterprises, a number of issues need to be addressed: 1) To make sure that state assets use fees are calculated fairly and reasonably and that the interests of both sides—the state and the enterprise—are taken into consideration, we must beware two things. First, do not base calculations on the book value of assets. Instead, use the replacement value method to appraise the assets value of enterprises. Second, take into account the organic constitution of enterprises in different industries, that is, the extent to which material labor and live labor contribute to the profits of an enterprise.

2. State assets use fees may be collected in the following two ways. First, they may take the form of fixed rents. The amount of such a rent may be determined based on the replacement value of enterprise assets and the capital return rate of the industry concerned. The rent is fixed for a period of five years. When the next round of contracting comes up, the rent should be revised based on the new assets value and capital return rate. Second, they may be collected in the form of an annual rent calculated each year in accordance with the enterprise's profit for that year and its fund contribution rate. That way state assets use fees will float with enterprise earnings, with both assets owners and operators sharing the risk.

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[“Statistical Report by the Yunnan Province Statistics Bureau on Economic and Social Development in 1989”]

[Text] In 1989, under the leadership of the Provincial Party Committee and the provincial government, the people of the various ethnic groups in Yunnan province earnestly carried out the program of improvement and rectification as well as the program of deepening the reforms. They defeated natural disasters and overcame multiple difficulties to achieve heartening successes in social and economic development. Social demand was brought under effective control, social supply continued to grow, imbalances between supply and demand were alleviated, and the entire economy of Yunnan province is now developing in the right direction. Preliminary statistics indicate that gross provincial output reached 31.1 billion yuan, an increase of 4.7 percent over the

previous year. Total personal income reached 27.9 billion yuan, an increase of 4.4 percent over the previous year. New advances were also achieved in education, science and technology, culture, public health, and sports. The main problems with the economy are: 1) The imbalance of supply and demand which has accumulated over the last few years has not been fundamentally redressed, and some deep-seated problems that affected economic stability have not been resolved. 2) As the economy has moved forward, macroeconomic retrenchment has been accompanied by new conflicts and problems, such as a market slump and enterprises which have not had enough business.

### I. Agriculture

Agriculture, forestry, animal husbandry, sideline products, and fishing all grew. Total agricultural output in 1989 was 15.268 billion yuan, an increase of 2.9 percent over the previous year. Within this category, crop value grew by 2.0 percent, forestry output value grew by 5.5 percent, animal husbandry output value grew by 5.1 percent, sideline production output value grew by 1.1 percent, and fishery output value grew by 8 percent. Autonomous minority localities (this term refers to eight autonomous prefectures and 19 autonomous counties) posted total agricultural output value of 9.519 billion yuan, an increase of 1.7 percent over the previous year.

Among the main agricultural products, grain production reached a near-historical peak, posting the second highest annual production figures ever. Production of the main cash crops dropped somewhat due to structural readjustments, the smaller number of acres planted, and natural disasters.

Production of the major agricultural products is listed below:

	1989 Output	Percentage Increase Over the Previous Year
grains	9,984,100 tons	6.1
oils	103,200 tons	-13.3
within oils category: rapeseed	67,200 tons	-21.6
sugar cane	5,512,800 tons	-5.6
flue-cured tobacco	456,700 tons	-10.0
tea	42,700 tons	-0.2
silk cocoons	2200 tons	10.0
fruits	343,200 tons	1.1

New progress was achieved in reforestation. A total of 3.922 million *mu* were reforested in 1989, an increase of 20.8 percent over the previous year. Operation of forestry-related businesses improved somewhat, and production of major forestry products posted relatively large increases. A total of 61,300 tons of natural rubber were produced (17.9 percent increase); pine resin, 21,000 tons

(11.7 percent increase); walnuts, 40,500 tons (13.8 percent increase); Chinese chestnuts, 4,800 tons (6.7 percent increase). Work to prevent forest fires was strengthened. Illegal timber cutting was reduced somewhat, but the situation in which deforestation exceeds production has yet to be turned around.

Major livestock production levels, and numbers of head on hand, are listed below:

	1989 Output	Percentage Increase Over Previous Year
pork, beef, and mutton	683,400 tons	5.9
within this category: pork	645,700 tons	6.3
milk	66,600 tons	5.7
pork pigs sold to market	8,231,900 head	6.6
number of pigs at year's end	20,014,100 head	3.7
number of sheep at year's end	7,288,600 head	1.7
number of large livestock at year's end	9,226,300 head	-0.1

Fisheries production continued to develop. Output of aquatic products for the entire province reached 44,100 tons in 1989, a 6.8 percent increase over the previous year.

Agricultural production conditions have improved somewhat. At the end of 1989, agricultural machinery in the province totalled 6,106 megawatts of power, a 5.4 percent increase over the previous year. There were 16,800 large- and medium-sized tractors (4.6 percent decrease); 127,800 small- and hand-guided tractors (10.5 percent increase); 16,800 trucks (1.8 percent increase); 6.56 megawatts of power irrigation equipment (4 percent increase); and 1,019,900 effective hectares of irrigated land (3.1 percent increase). Annual use of chemical fertilizers came to 521,000 tons (15.5 percent increase), and rural electricity consumption reached 1.16 million megawatt hours (14.9 percent increase). However, the capability of agriculture to fend off natural disaster is still very weak, and the agricultural service system is still not perfected.

The rural economy developed in a stable manner. Total rural social output in 1989 reached 21.6 billion yuan, a 7.0 percent increase over the previous year. Breaking this figure down further, the percentage of this output accounted for by rural industry, construction, transportation, commerce, and comestibles rose from 28.1 percent to 29.3 percent.

### II. Industry

Industrial production overcame various difficulties and maintained a good rate of growth. Total industrial output in 1989 was 30.491 billion yuan, a 6.8 percent

increase over the previous year. This does not include the 28.051 billion yuan of industrial output at the level of village or below, which was a 6.3 percent increase over the previous year. Further breaking down the figures for total industrial output, industry under the ownership of the whole people grew 6.0 percent, industry under collective ownership grew 7.3 percent, and industry under the ownership of individual entrepreneurs grew 13.9 percent. Other categories of industry grew 32.4 percent. The total industrial output of industries in autonomous minority localities reached 8.455 billion yuan, a 4.1 percent increase over the previous year. The industrial product mix improved somewhat. The output value of light industry for the whole year was 15.461 billion yuan, a 6.1 percent increase over the previous year. The output value of heavy industry was 15.030 billion yuan, a 7.4 percent increase over the previous year. Production of high quality durable consumer goods decreased after abnormal growth in the past few years, production of raw and semi-finished materials gradually improved, and growth in total production of energy resources accelerated, but there continued to be relatively sharp internal structural conflicts within industry.

The total output of major industrial products is listed below:

	1989 Output	Percentage Increase Over Previous Year
yarn	40,500 tons	-4.0
cloth	17,917,000 yards	0.5
wool fabric	392,400 yards	-33.6
sugar	463,900 tons	-16.5
crude salt	383,200 tons	9.8
cigarettes	4,073,600 cartons	14.8
fine teas	33,000 tons	-2.4
machine-made paper, cardboard	152,500 tons	5.1
bicycles	428,100	-15.3
televisions	110,000 sets	-0.4
within this category: color televisions	49,700 sets	-29.4
home washing machines	56,800	-15.3
home refrigerators	88,600	-18.2
home sewing machines	93,800	1.5
coal	21,810,000 tons	6.2
electric power	11,412,000 megawatts	11.6
within this category: hydroelectric	5,913,000 megawatts	22.9
steel	722,200 tons	5.8
finished steel	618,500 tons	7.9
10 nonferrous metals	200,000 tons	9.8
cement	4,524,200 tons	2.1

industrial lumber	1,280,500 cubic meters	-19.6
plate glass	1,384,400 containers	30.2
sulphuric acid	340,500 tons	5.4
caustic soda	23,600 tons	3.8
agricultural fertilizers	811,200 tons	11.7
power generation equipment	66.1 megawatts	24.2
metal cutting machines	4068	2.3
automobiles	9900	-12.8
small tractors	17,300	-6.1

Due to slow sales, a reduced rate of production, and poor management of some enterprises, the economic benefits accruing to the province from enterprises decreased. Stockpiled products from industrial enterprises under the ownership of the whole people and those with independent accounting in 1989 tied up 75.6 percent more funds at the end of the period than in the previous year. The number of days required for a given sum of operating funds to turn over rose from 94 days to 106. The rate of decrease in comparable manufacturing costs rose 11 percentage points above that of the previous year. The total losses of money-losing enterprises were 42.4 percent higher than in the previous year.

### III. Fixed Asset Investment and the Construction Industry

The scope of fixed asset investment was brought under control. A total of 6.78 billion yuan was invested in fixed assets in 1989, the same as in the previous year. If we adjust for inflation, the degree of retrenchment was ten percent or greater. A total of 4.172 billion yuan were invested in the fixed assets of work units under the ownership of the whole people, 389 million (8.5 percent) less than the previous year. Further breaking down this figure, local investments reached 2.686 billion yuan, 340 million (11.2 percent) less than the previous year. A total of 1.4 billion yuan were invested in the fixed assets of work units under collective ownership, an increase of 29.6 percent over the previous year. Individual investments reached 1.208 billion yuan, an increase of 6.4 percent over the previous year. The number of projects under construction had been growing too fast, but this tendency was brought under control. The number of construction projects as well as upgrade and renovation projects under way during the year at work units under the ownership of the whole people was 4926, which was 1686 fewer than the previous year. The number of new construction projects begun during the year was 1497, which was 229 fewer than the previous year. A total of 1.177 billion yuan were invested in the fixed assets of work units under the ownership of the whole people in minority autonomous localities, a decrease of 11.8 percent from the previous year. Further breaking down this figure, there were slight increases in the four autonomous prefectures of Xishuangbanna, Dehong, Diqing, and

Nujiang. By carrying out investigations and weeding out undesirable projects, a total of 196 projects throughout the province were suspended or slowed down, which could lead to a cutback of 455 million yuan worth of investments. In particular, the construction of luxury hotels, restaurants, and other entertainment-oriented projects was brought under control. Success was achieved in rebuilding homes in the area hit by the earthquake.

With total investments being cut back, investment structure was somewhat improved. Capital construction investment by work units under the ownership of the whole people in 1989 reached 2.317 billion yuan, an increase of 8.8 percent over the previous year. Further breaking down this figure, production-oriented construction investments totalled 1.503 billion yuan, and its share of total capital construction investment rose to 64.9 percent from the previous year's 63.4 percent. Nonproduction-oriented investments totalled 814 million yuan, and its share of total capital construction investment dropped to 35.1 percent from the previous year's 36.6 percent. Further breaking down this figure for production-oriented construction investments, investments in the agricultural, forestry, water conservancy, and meteorological sectors totalled 157 million yuan, and their share of the total rose from 8.9 percent to 10.4 percent. Investments in the transportation sector and the posts and telecommunications sector totalled 249 million yuan, and their share of the total rose from the previous year's 15.5 percent to 16.6 percent.

Aggregate investment in 25 large- and medium-sized projects throughout the province in 1989 came to 939 million yuan. Ten key construction projects and individual projects were scheduled to be completed and go into production during 1989. Apart from the fact that the switch to electric locomotives on the Guiyang-Kunming Railroad had been only partially completed, the other nine projects, including Lubuge Power Plant's Generating Unit Number Three and the Tianba Coal Cleaning Plant, have all been completed and have gone into production, adding momentum for economic development in Yunnan. Capital construction in Yunnan has added major production capacity in the following areas: 254.7 megawatts of generating capacity, 278.01 kilometers of transmission line of 110 kilovolts or more, transformer equipment capable of handling 352,000 volt-amperes, and coal cleaning facilities with a capacity of 900,000 tons.

Because investments have been cut back, the construction industry has encountered difficulties. The number of personnel in collective construction teams dropped 5.7 percent. Construction enterprises under the ownership of the whole people grew somewhat while overcoming difficulties. Their total output was 1.779 billion yuan. Adjusting for inflation, this represented a 5.6 percent increase over the previous year. Labor productivity of the entire body of workers was 11,187 yuan, which represented a 6.2 percent increase after adjusting

for inflation. However, many construction enterprises did not have enough business, and their profits fell while losses mounted.

New successes were achieved in geological surveys and exploration. A total of 12,300 meters was drilled in 1989. Nine new mineral sites were discovered and eight new types of major mineral deposits were proven.

#### IV. Transportation, Posts, and Telecommunications

In 1989, rail freight transportation surpassed the annual quota, but highway transportation was affected by tight supplies of petroleum. The transport volumes of the various means of transportation within the transportation system are listed below:

	1989 Output	Percentage Increase Over Previous Year
volume of cargo	11,332 billion ton-kilometers	4.3
rail	8,800 billion ton-kilometers	6.3
highway	2,437 billion ton-kilometers	-3.4
water	880 million ton-kilometers	46.7
air	7 million ton-kilometers	-12.5
passenger volume	9,401 billion passenger-kilometers	0.7
rail	2,192 billion passenger-kilometers	-8.3
highway	6,766 billion passenger-kilometers	4.4
water	42 million passenger-kilometers	-4.5
air	401 million passenger-kilometers	-3.8

Undertakings in posts and telecommunications continued to develop. Total turnover in posts and telecommunications in 1989 was 109.87 million yuan, an increase of 11.3 percent over the previous year. The number of telephone accounts in the cities by the end of the year was 64,600, an increase of 14.3 percent over the previous year. Although the strained situation with transportation and communications situation was somewhat alleviated, the requirements of economic development were still not being met.

#### V. Domestic Commerce and the Supply and Marketing of Materials

The change in the domestic market was relatively large. After growing too fast in the previous year, commodity sales slumped. Total retail sales of social commodities in 1989 were 15.988 billion yuan, an increase of 6.6 percent over the previous year, and this was actually a 10.6 percent after adjusting for inflation. The figure for autonomous minority localities was 7.147 billion yuan,

an increase of 3.1 percent over the previous year. Within the category of total retail sales of social commodities, retail sales of agricultural means of production accounted for 1.772 billion yuan, a 22.6 percent increase over the previous year. Retail sales of consumer goods reached 14.215 billion yuan, a 4.9 percent increase over the previous year. Further breaking down this figure, 1.063 billion yuan of these sales went to social groupings. When we base our calculations upon comparably defined sales figures, we find an increase of 1.1 percent, which turns into an actual drop of 15 percent after adjusting for inflation.

Retail commodity sales by the various economic categories grew or declined at the following rates: work units under the ownership of the whole people—up 4.6 percent; supply and marketing cooperatives—up 4.7 percent; other collectively owned work units—up 3.1 percent; joint enterprises—down 25.5 percent; individual entrepreneurs—up 14.8 percent. Total sales by peasants to households not involved in agriculture rose 14.6 percent.

Total retail sales of various consumer goods rose or fell as follows: edible commodities—up 7.5 percent; wearable commodities—down 5.3 percent; commodities intended for other uses—up 6.4 percent. After rising sharply the previous year, sales of such commodities as cotton cloth, synthetic fabrics, woolen fabrics, bicycles, sewing machines, and household electrical appliances dropped relatively sharply last year.

After rising sharply the previous year, profits in the commercial sector dropped noticeably. In 1989, profits realized by the commercial system and the supply and marketing cooperative system came to 200 million yuan (before subsidies), which was a 62.7 percent drop from the previous year. The number of money-losing enterprises rose, and the funds turnover rate dropped.

The rate of market price increases has declined somewhat. Retail prices throughout the province rose 19.3 percent in 1989, which was three-tenths of a percentage point below the rate of increase in the previous year. Further breaking down this figure, new inflation factors accounted for 6.6 percent percentage points, which was a marked drop from the 17.6 percent generated by this source a year earlier. On a month-by-month basis, prices were 32.9 percent higher in January than 12 months earlier, 32.9 percent higher in February, and 34.6 percent higher in March. After that, the rate of increase gradually declined to only 3 percent by December. Comparing the urban situation against that in the countryside, the overall urban retail price level rose 18.5 percent, while it rose 19.6 percent in the countryside. Comparing different commodity categories, comestibles rose 18.7 percent. Further breaking down the figure for comestibles, food grains rose 21 percent, meat, poultry, and eggs rose 13.7 percent, and fresh vegetables rose 19.7 percent. Clothing rose 16 percent. Daily necessities rose 16.9 percent. Medicine and medical supplies rose 21.4 percent. Fuels rose 20.3 percent. Agricultural means of production rose 20.4 percent.

The cost of living for urban workers and staff rose 17.9 percent in 1989, which was 3.2 percentage point lower than the rate of increase for the previous year.

Demand for capital goods weakened. A total of 3.096 billion yuan worth of capital goods were sold by the materials system in 1989, an increase of 12.0 percent over the previous year. Adjusting for inflation, this represented an actual decrease of 12.6 percent. Further breaking down this figure, 663,700 tons of steel were sold, 5.1 percent less than the previous year. A total of 1.066 million tons of cement were sold, which was a 7.3 percent decrease from the previous year.

Rectification of market order yielded results. The entire province from top to bottom took aggressive measures to rectify economic order, root out various types of inferior and counterfeit commodities, and bring a stop to speculative buying and selling. The province implemented monopoly control over trading of color televisions, chemical fertilizers, pesticides, and agricultural plastic sheeting, with the result that market order improved somewhat. However, price hikes for agricultural means of production have been relatively large, and exorbitant fees for services still exist to a greater or lesser degree.

## VI. Foreign Economic Relations, Trade, and Tourism

Foreign economic relations and trade continued to develop. Statistics from the Yunnan Provincial Bureau of Economics and Trade indicate that total imports and exports in 1989 came to \$548 million, an increase of 23.4 percent over the previous year. Exports totalled \$375 million, a 9.5 percent increase over the previous year, while imports totalled 173 million yuan, a 70 percent increase over the previous year. The nontrade foreign exchange income of the province totalled \$12.84 million, a 16.4 percent decrease from the previous year. Nontrade foreign exchange expenditures totalled \$1.73 million, a 58.0 percent decrease from the previous year.

Foreign exchange utilization continued to increase. In 1989, \$44.96 million worth of foreign exchange were utilized, an increase of 36.2 percent over the previous year. Further breaking down this figure, direct investment by foreign firms totalled \$7.4 million, which represented an increase by a factor of 2.4 over the previous year. Compensation trade amounted to \$470,000, a drop of 90.9 percent from the previous year.

New progress was achieved in the area of foreign economic and technological cooperation. There were 11 new construction contracts and labor contracts for projects abroad worth a total of \$7.01 million, which was a 21.7 percent increase over the previous year. Gross receipts totalled \$3.45 million.

Tourism decreased somewhat. A total of 74,400 persons entered Yunnan from more than 50 nations and territories in order to tour, visit, or take part in various exchange activities. This represented a drop of 38.7 percent from the previous year. Further breaking down this figure, 40,100 foreigners arrived in Yunnan (down

47.7 percent from the previous year), and there were 32,200 arrivals from Hong Kong, Macao, and Taiwan (down 23.7 percent from the previous year). Income from tourism came to \$10.64 million for the year (down 18.9 percent from the previous year).

## VII. Education, Science, and Culture

The number of students enrolled by regular institutions of higher education was brought somewhat under control. The province's education system enrolled 153 graduate students in 1989, 19.9 percent fewer than the previous year. The total number of graduate students in school was 568, which was 23.2 percent fewer than the previous year. The number of undergraduates and vocational students enrolled by regular institutions of higher learning in the province was 12,700, a drop of 12.4 percent from the previous year. There was a total of 45,100 students in school, basically the same as the previous year. A total of 12,700 students graduated, an increase of 21 percent over the previous year.

Intermediate vocational and technical education developed in a stable manner. The number of students in school at the various types of intermediate vocational and technical schools was 143,700 (including 24,000 technicians schools), an increase of 12.9 percent over the previous year. These students accounted for 44.8 percent of the 320,700 students at the senior high school level.

There were 1,018,400 students in junior high schools throughout the province, an increase of 0.6 percent over the previous year. There were 4,574,200 students in elementary schools, a 4.8 percent drop from the previous year. The enrollment rate of school-age children was 94.5 percent. Education for preschool children and the mentally and physically handicapped developed somewhat. A total of 73 counties (municipalities) were investigated in the effort to popularize primary education, but in some districts, particularly in the countryside, dropout rates in middle and elementary schools rose somewhat.

Higher level institutions of adult education enrolled 5535 undergraduates and vocational students, a 22.3 percent drop from the previous year. The total number of students in these schools was 14,039 persons, a 2.8 percent drop. Intermediate vocational and technical schools for adults had 120,100 students, an increase of 66.1 percent over the previous year. Primary schools for adults had 239,800 students, an increase of 9.2 percent over the previous year.

There was new progress in science and technology. A total of 105 key scientific research tasks were completed in the province in 1989, of which 92 gained provincial prizes for achievement in science and technology. The State Invention Prize was awarded for one project, the State Prize for Scientific and Technological Progress was awarded to six projects, and the Spark Prize was awarded to two projects. A total 39 projects under the Spark Plan were completed, and they made significant contributions to the effort to revitalize the rural economy. A total of 21,000 scientific and technical

personnel took to the front lines of production to serve the cause of technology and development, where they made outstanding contributions.

Patent work and science and technology grew more active every day. A total of 435 patent applications were processed in 1989, a 10.8 percent drop from the previous year. Of these, 268 were approved, a 41.7 percent increase over the previous year. A total of 5714 technological and economic contracts were signed during the year, which was double the number in the previous year. The total value of these transactions was 110 million yuan, which was higher than the previous year by a factor of 2.45.

The ranks of people working in science and technology further expanded. Work units under the ownership of the whole people employed 580,800 scientific and technological personnel throughout the province in 1989 (including educators in middle and elementary schools), an increase of 10.3 percent over the previous year. At the end of the year, 153 independent organs of scientific research and technological development under the ownership of the whole people at the county level or higher employed 17,000 workers and staff, of which 11,000 were scientific and technological personnel.

Cultural undertakings flourished. Two movies and 11 television series with a total of 22 episodes were produced in Yunnan province in 1989, and 196 new films of various types were distributed. At the end of 1989 there were 7314 film projection work units of all categories, 137 performing arts groups, 128 cultural halls, 148 public libraries, 20 museums, 12 radio stations, 37 medium- and short-wave broadcast and relay stations, 7 television stations, 24 television broadcast and relay stations of 1000 watts or more, and 1441 satellite television ground receiving stations. A total 205 million newspapers, 10,720,100 magazines, and 131 million organizational books were published.

## VIII. Public Health and Sports

Public health undertakings continued to develop, and medical treatment further improved. The province's hospitals had a total of 75,000 beds, an increase of 0.13 percent over the previous year. There were 99,000 trained medical personnel, an increase of 1.63 percent over the previous year. Among this number, 51,900 were doctors, a 1.35 percent increase. There were 27,000 nurses, a 5.12 percent increase. Work in the areas of preventive health and oversight of hospital procedure was strengthened, and new successes were achieved in preventing and controlling various acute and chronic infectious diseases, as well as local diseases.

New successes were achieved in sports. In 1989, athletes from Yunnan won one gold medal and two silver medals in international sporting events and 23 gold medals, 17 silver medals, and 22 bronze medals in national sporting events. Sporting events for the masses further developed. In 1989, 3005 sporting events at the county level or higher were held, and 949,000 people participated.

#### IX. The People's Standard of Living

Consumer demand was brought somewhat under control. A random sampling indicated that urban residents on the average earned 1183.83 yuan in 1989 which they were able to use to defray living expenses. This represented an increase of 12.1 percent over the previous year. As the rate of inflation fell, the mood of urban consumers became calmer. Consumption patterns became more normal, income matched expenditures, and there was a slight surplus. However, real average per capita income in low income households declined relatively sharply. Studies carried out in nine municipalities (counties) indicated that actual income declined in 40.7 percent of all households due to inflation. Net per capita income in 1989 for peasants was 477.89 yuan, an increase of 11.7 percent over the previous year. After adjusting for rising prices for commodity expenditures, actual income in some peasant households declined.

Urban employment rose. A total of 76,000 unemployed urban residents were provided jobs in Yunnan in 1989. The total number of workers and staff at the end of 1989 was 2,858,200 persons, an increase of 57,300 over the previous year. Further breaking down this figure, the total number of workers and staff employed in work units under the ownership of the whole people which have implemented the labor contract system stood at 187,700 persons, an increase of 35,600. There were 134,600 urban individual workers at the end of the year, 400 fewer than the previous year. As social demand dropped, some enterprises did not have enough business, and urban unemployment rose.

Total wages for the province in 1989 came to 5.263 billion yuan, an 11.8 percent increase over the previous year. Further breaking down this figure, bonuses and above-norm piecework wages totalled 944 million yuan, an increase of 15.6 percent. Average monetary wages came to 1880 yuan per worker, a 9.6 percent increase over the previous year.

Urban and rural savings rose sharply. Household savings at the end of 1989 stood at 8.645 billion yuan, 2.261 billion yuan higher than the previous year, and a 35.4 percent increase.

Urban and rural housing conditions further improved. In 1989, 4.34 million square meters of urban housing and 13.67 million square meters of rural housing were built.

Social services continued to develop. There were a total of 711 social service institutions in Yunnan in 1989, and they adopted 8300 people. A total of 2,788,700 people in the cities and the countryside received welfare assistance from the state, and a total of 52,500 orphans, senior citizens, handicapped individuals, and youth in the cities and the countryside were supported collectively.

Insurance developed rapidly. A total of 41.97 billion yuan worth of every type of property was insured in 1989, a 50.1 percent increase over the previous year. A

total of 18,900 enterprises throughout the province took out enterprise property insurance, 903,900 households took out household property insurance, and 3,153,500 individuals took out accident and life insurance. Insurance companies processed a total of 37,300 property insurance claims, paying out 65.61 million yuan. They paid 7.46 million yuan to 22,500 people for accident and life insurance claims.

#### X. Population

Random demographic samplings indicate that the birth rate in Yunnan in 1989 was 23.07 per thousand, the mortality rate was 8.05 per thousand, and the rate of natural increase was 15.02 per thousand, which was 1.86 per thousand below the previous year's rate. The province's population at the end of the year stood at 36.48 million, which was 540,000 higher than the previous year.

#### Notes:

- 1) All the statistics cited in this report are from the annual report except for figures on the gross output value of the provincial economy and for total individual income, which are preliminary figures.
- 2) The various figures for total output value have been calculated on the basis of prices during the year in question, and growth rates have been calculated on the basis of comparable prices.
- 3) Figures for production and application of agricultural fertilizers have been calculated on the basis of 100 percent of effective ingredients.

#### FINANCE, BANKING

##### External Circulation of Funds Essential to Growth

90CE0037A Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 2, 3 Feb 90 pp 47-49

[Article by Zhang Yourong (1728 2589 2837): "External Circulation" of Funds Is Certainly Not 'Revisionist']

[Text] There has been much debate recently about the issue of "external circulation" of funds, which can be summed up in the following two major viewpoints: 1) external circulation of funds is a "revisionist" form of economic operations that is very harmful and should be abolished; 2) external circulation of funds is the inevitable outcome of the development of a commodity economy in the course of carrying out economic reform. It is rational and neither should nor can be abolished by force. The crucial point is the need to guide and utilize it correctly. I endorse the latter viewpoint.

##### I. A Review of the Factors Contributing to "External Circulation" of Funds

"External circulation" of funds refers to the phenomenon of public circulation of idle capital, not through the

approved financial institutions of the credit system that is currently in operation (mostly banks), but rather directly through fund supply and demand. It is currently expressed mostly through forms, such as enterprise fundraising and nongovernmental financing, with enterprise fundraising playing the biggest role. Although many factors have contributed to this phenomenon, I think that it was caused mostly by the following two:

*1. Inevitable Factors, in particular as follows:*

**A. Changes in the Nature and Status of Enterprises:** PRC enterprises have traditionally been merely workshops with no decisionmaking power within the larger state-owned factory. They have been supplied with nonrepayable state funds, and have had neither the need nor the authority to raise funds on their own. Economic reform is gradually changing them into independent commodity producers which have decisionmaking power, assume the sole responsibility for their profits or losses, and must adapt themselves to market regulation, while being guided by state planning. This means that, as the state no longer provides them guaranteed funds, they not only must, but also should have the authority to, raise funds publicly in order to exist and grow whenever they cannot borrow enough money from banks.

**B. The Inexorable Demands of Restructured Markets:** As restructured socialist markets are a temporally and spatially dynamic and organic combination of commodity, money, and labor markets, only the overall, combined impact of these three markets can enable manpower, financial, and material resources to circulate in a rational ratio during social reproduction. Without money markets, overall markets are imperfect and it is impossible to bring the proper impact of the market into full play. Under our traditional system of centralized revenue and expenditure, centralized bank savings and loans, highly centralized bank credit, exclusion of nonbank credit, money markets on such a small scale, and only one vertical form of financing from top to bottom through state administrative means, a lot of idle capital had no other means of being raised by those who needed it. On one hand, this made enterprises dependent on state funds, while not only could the state not quantitatively ensure enterprise fund needs, but its single, highly centralized form of fund circulation was unsuited to the extremely complex enterprise fund demands of a planned commodity economy. On the other, idle capital could shock and disrupt consumer markets at any time. Thus, "external circulation" of funds was precisely a rational shock to these abnormally-developed money markets.

**C. The Demands of Diversified Financial Assets:** The fund providers who have become gradually more aware of the meaning of a commodity economy and acquired a better sense of the best way to use their idle capital since economic reforms began, are not only investing their money in more diversified financial assets for safety, but are also choosing different kinds of financial assets according to the various characteristics of their funds on

hand. These demands for diversified financial assets have become a motivation for the development of money markets, calling not only for financial institutions to provide more diversified funds for fund providers, but also for nonfinancial institutions to provide more diversified financial assets options. "External circulation" of funds reflects these reasonable demands.

*2. Accelerating Factors, in particular as follows:*

**A. The Tightening of Credit:** In order to cool down the overheated economy, the state has put into effect a dual retrenchment policy for public finance and banks, which has blocked enterprises' two major fund source channels by strictly controlling public financial expenditures and bank credit. Forcing enterprises to search for new fund sources in order to exist and grow, has speeded up the phenomenon of "external" fundraising.

**B. Negative Interest Rates:** The worsening of inflation and the steady rise in the price index in the PRC in recent years, have left fixed bank interest rates far behind, given interest rates a negative value, and eaten up the profits from idle capital. In order to protect their profits and seek even higher ones, fund providers have been investing their money in financial assets that are more profitable than bank savings.

**II. An Analysis of the Impact of "External Circulation" of Funds**

"External circulation" of funds generally affects the following things:

**1. The Money Supply:** As "external circulation" of funds has admittedly put into circulation part of the money that had been temporarily withdrawn from the production process, speeded up currency circulation, and changed the amount of money that is actually in circulation, some people think that it should be banned because it is certain to sharpen inflation and have serious consequences. This is a one-sided view. Assuming that credit is provided and money is poured into the production process through the two channels of financial institutions and "external circulation," if we learn the objective credit needs of the whole society, predict the amount of credit that can be provided "externally" and, from an overall social perspective, use the "external" changes to regulate and control financial institution credit so that it does not exceed overall objective needs, credit will not get out of control. Of course, although improper regulation and control might cause credit inflation, we should not refrain from regulating and controlling for fear of the slight risk, because this would not be an issue of "external circulation." As long as regulation and control is done well, "external circulation" is certainly not bound to cause or sharpen inflation.

**2. Macroeconomic Regulation and Control Capability.** Other people think that "external circulation" of funds increases the amount of money that banks cannot effectively control, may even reduce the amount of "internal"

bank funds, and greatly weakens macroeconomic regulation and control capability. This is another mistaken view. The reason why PRC macroeconomic regulation and control is stuck in a vicious cycle of "either stifling overcontrol or deregulated chaos," is that having only one channel of vertical, highly centralized fund circulation causes sharp disorder when control is eased, and stifling across-the-board cuts for everyone when it is tightened, which undermines the buffer effect of macroeconomic regulation and control. In order to achieve growth during retrenchment and prevent stifling overcontrol, enterprises must be given breathing space by being allowed to raise funds on the market. Only this will perfect our macroeconomic regulation and control mechanism and control irrational economic inflation. "External circulation" of funds is precisely suited to this need. It is thus clear that macroeconomic regulation and control capability certainly does not depend on the amount of funds controlled by the macroeconomic regulation and control sector, but rather on how effectively the overall macroeconomic regulation and control mechanism operates.

*3. The Industrial Structure.* Once the new economic system is established, all relations are rationalized, and prices are able to rationally reflect commodity value and the law of supply and demand, "external circulation" of funds will automatically adapt to a rational industrial policy. This is mostly because it will be restrained by both fund providers and users. As fund users, enterprises that are able to raise funds from "external" nonbank sources, which are precisely the kind of enterprises that are needed to perfect the current industrial structure, will certainly become the strongest ones, while providers will absolutely not deliberately invest funds in enterprises that are in danger of being eliminated because they do not conform to industrial policy. These restraints have already begun to take effect for enterprises which are in the process of transition from the old system to the new. Although "external circulation" of funds might deviate from industrial policy as long as prices are irrational, we must not negate its positive impact because of this possibility. This is because "external circulation" of funds will conform to industrial policy, provided we enhance our control and management and bring the restraints of providers and users into full play. "Internal circulation" of bank funds actually also has certain drawbacks, such as unchecked granting of loans, granting loans for selfish purposes, and administrative interference, which may cause it also to deviate from industrial policy. In fact, it is precisely "external circulation" of funds that provides the opportunity to eliminate low-grade enterprises during retrenchment. As it is hard for low-grade enterprises to raise funds even when they are forced to, there is even less need for them to be controlled by the administrative sector. I think that "external circulation" of funds is also the most practical and feasible way to restructure industry under present conditions.

*4. Bank Prestige.* Some people say that "external circulation" of funds damages bank prestige because it separates bank fund sources, "diverts" bank savings, and reduces bank credit funds. This view is also untenable, because a bank's prestige certainly does not depend solely on the amount of funds it has, but rather is affected directly by factors, such as its work approach, service quality, and debt repayment capability. In fact, PRC banks have never taken any risks, because they control most of the money in the national economy and are backed up by the state. If bank prestige is likely to be damaged because banks are just beginning to face competition from "external circulation," this makes it even more essential that they undergo self-examination instead of trying to avoid competition by blindly eliminating "external circulation."

Although the above analysis shows that "external circulation" of funds has a good impact that cannot be produced by the traditional system, certain problems have arisen in "external circulation" because the administrative sector has not managed it effectively, established feasible rules for its normal operation, or created the right environment. However, these problems should not be used to negate "external circulation," because they certainly did not arise from any inherent flaws in the mechanism. Just as we cannot abandon our modern means of traffic control, which are more effective but have greater risks and are harder to manage, and return to the age of horses and carriages, just because traffic accidents occur when they are not managed properly, we cannot abandon "external circulation," which is more effective but has greater risks and is harder to manage, and return to the age of "internal circulation" alone, just because problems arise when it is not managed properly.

### III. Options To Counter the Problems That Have Arisen in "External Circulation" of Funds

In summary, the key to countering the problems that have arisen in "external circulation" of funds, will be to take appropriate steps to control and guide "external circulation," curb its defects and develop its advantages, and bring its positive impact into full play, instead of taking various administrative steps to restrict or even eliminate it. I think the following appropriate options should be considered:

*1. Misunderstandings Should Be Cleared Up and Concepts Should Be Revised.* Although the term "external circulation" of funds was used throughout the above review and analysis for ease of expression, I think that it is actually inappropriate because it is apt to make people feel that "external circulation" is "revisionist." In fact, "external circulation" is nothing more than direct financing, period. The reason why many comrades disagree with direct financing is that since they recognize only the fund circulation medium of financial institutions, but have trouble accepting the parent medium of a commodity economy which creates funds and motivates their circulation, they naturally think that all financial

activity without a financial intermediary is "revisionist." Therefore, it is particularly essential during the current period of transition from the old system to the new one to enhance publicity, clear up misunderstandings, and revise ideas and concepts.

**2. Macroeconomic Control Should Be Enhanced.** Credit should be better macrocontrolled, and "external circulation" of funds should be better monitored, included in overall credit plans, and managed and guided in a planned way. Direct financing should be standardized through perfecting financial laws and regulations and guiding enterprises to sell stocks and bonds, in order enable central banks and other regulation and control departments to control it more strictly.

**3. Fundraisers Should Be Screened.** Fundraisers should be judged by the following criteria: A) enterprise quality, referring mainly to their ability to handle funds and repay debts; B) industrial policy, i.e., whether fund-raising enterprises and their products conform to industrial policy demands. Enterprises should be either permitted to raise funds or not, based on whether they meet these criteria.

**4. Interest Rates Should Be Allowed To Float.** Faced with the current situation of interest rates being generally higher for direct financing than for bank loans, some people have proposed that they be set at the optimum point to both prevent "savings from being diverted from banks," while also enabling direct financing to attract idle capital. This would be impractical. Under the current situation in which bank interest rates have a negative value, direct financing would have no appeal and fund providers would not take the risk, if interest rates were not somewhat higher for direct financing than for bank loans. Thus, a dual-track interest rate system should be put into effect, to enable interest rates to float for "external circulation" of nonbank funds. This would have the following advantages: A) it would enable interest rates to more realistically reflect the law of supply and demand, and provide a valuable reference for the state in formulating a rational interest rate policy; B) higher interest rates could spur enterprises to economize on funds and automatically shift to tapping latent potentials, in order to improve their fund use efficiency; C) some "savings being diverted from" banks would become a motivation for banks to improve their management. In fact, fundraising interest rates could not float completely without limit even when credit is tight, because enterprises would not disregard fund costs and undertake losing propositions, since their fundraising is carried out precisely in order to exist and grow. As a dual-track interest rate system would form a balance between supply and demand, the worries about floating fundraising interest rates causing chaos are unnecessary.

From a long-range perspective, the development of "external circulation" of funds, i.e., direct financing, should be coordinated with the PRC's perfection of money markets. This will turn "external circulation" of funds into a general motivation for developing a mature

money market, and make it a valuable and indispensable part of the PRC money market. Of course, this process will require coordinated economic reforms in all areas.

## INDUSTRY

### Optimal Industrial Growth Rate Between 10, 12 Percent

90CE0234B Urumqi XINJIANG RIBAO in Chinese  
6 Apr 90 p 1

[Article by Ai Min(5337 3046) and KEJI RIBAO Reporter Chen Weidong (7115 5898 2639): "Relevant Experts in Expounding on Their 'Study of Xinjiang's Industrial Economic Performance' Report Propose That Our Region's Optimal Rate of Industrial Growth Is 10 to 12 Percent"]

[Text] Our region's industry must maintain an appropriate rate of growth. During the Eighth 5-Year Plan and even the Ninth 5-Year Plan, controlling this rate at between 8.5 and 15 percent would be appropriate, and stabilizing it at 10 to 12 percent would be optimal. This is the viewpoint proposed by the autonomous region's relevant experts in the economics and science and technology fields in their "Study of Xinjiang's Industrial Economic Performance" report.

This soft science assignment, the first comprehensive, systematic, multidirectional, multilevel, long-term study of the performance of Xinjiang's industrial economy, was undertaken and completed by the Xinjiang Economic Management Cadres Institute. The study thoroughly analyzed factors related to the industrial economic index of the region since the founding of the country. These included the growth rates of the gross output value and labor productivity in independent accounting industries and enterprises under the ownership of the whole people, the fixed asset profit tax rate, the output value profit tax rate, the sales profit tax rate, and the turnover rate of circulating funds. The experts determined that economic performance is best when the industrial growth rate is maintained at 10 to 15 percent. When it is between 8.5 and 10 percent or 15 and 20 percent, economic performance is good. Economic performance clearly declines when [the rate] is below 5 percent or above 20 percent.

Experts believe that the study's four major viewpoints and the four major countermeasures for improving regional industrial economic benefits are ideas that break new ground. The four major viewpoints are that our region's industrial economic performance has three layers: technical, economic, and social; the overall quality of Xinjiang enterprises greatly influences economic performance; Xinjiang's industrial economic units are divided into four grades; and the Xinjiang industrial economy must grow at the proper rate. The four major countermeasures are adjusting the industrial

industrial structure, maintaining the proper rate of growth, promoting technological advances, and reinvigorating enterprises.

### Decline in Xinjiang Industrial Output Difficult To Reverse

90CE0234A Urumqi XINJIANG RIBAO in Chinese  
18 Apr 90 p 1

[Article by Fan Xibin (5400 6007 2430): "The Decline in Industrial Output Will Be Difficult To Reverse"]

[text]In the first quarter of this year our region's industrial situation has been rather grim. The gross value of industrial output [GVIO] reached 2.453 billion yuan, which was 253 million yuan less than planned, and one percent less than in the same period last year. To have the first quarter industrial output show negative growth is something rarely seen in the past ten years. Moreover, it was lower than the national average industrial output. After experiencing a decline which began last September, the nation's industry began picking up again in March of this year. The GVIO grew by 1.4 percent, and the first quarter's industrial output growth rate was level with the same period last year. This region's industrial output situation has aroused the concern of the autonomous region's party and government leaders and relevant people in the economic sphere.

Looking at the region's industrial development in recent years, in general the rate of development in the first quarter has been slower than in the other three quarters. The rhythm of development that appears is "early low, late high." As far as the whole year is concerned, the rate of industrial development generally stays around 10 percent, which basically conforms with the autonomous region's actual situation. However, the present sharp fall in industrial output cannot take comfort from the normal, historical "early low, late high" rhythm. If we do not promptly take measures, it is bound to influence the appropriate rate of growth for the entire year, and further influence the overall autonomous region and national economy.

At the same time that the first quarter industrial output showed negative growth, such problems as the region's weak market, overstocked products, and low economic results also appeared rather abruptly. In the first quarter the region's retail sales volume of social commodities increased by only 0.9 percent over the same period last year. If inflation is taken into account, growth was actually negative. According to incomplete statistics, at the end of February, overstocked products in areas such as machine-building and electronics, textiles, light industry, commerce, and supply and marketing reached 1.2 billion yuan. In the first quarter budget, the gross value of industrial and enterprise output fell 3.37 percent from the same period last year and sales revenues fell 12.15 percent, which brought about a 27.91-percent decrease in profit taxes. Profits fell by 46.76 percent,

compared to a 6.4-percent rise in the cost of manufactured goods. Some enterprises suffered a loss, and a few enterprises either partially or totally stopped production.

Basically, the above problems are a reflection of several years' accumulation of problems such as a not altogether rational industrial structure, product mix, and enterprise organizational structure. In addition, we also have to look at the fact that in the new situation of implementing improvement and rectification and carrying out the "dual restriction" policy new problems have arisen. Among these the chain reaction set off by the weakening of the market is the most prominent. Last year, the state absorbed a large amount of nongovernmental floating capital by using deposit rates, guaranteeing the value of savings deposits, and issuing bonds. People shifted from "guaranteed purchases" to "guaranteed deposits" and the market shifted from panic purchasing to weak [demand]. When stores did less business, they reduced their factory orders. Factory products piled up and circulating funds were squeezed, and there was no way for production to enter its normal cycle. These problems appeared most prominently in the rest of China in the last half of last year, but because of restrictive geographic conditions, they did not prominently appear in Xinjiang until the first quarter of this year. We should also realize that in recent years our region's industry maintained a rather high rate of development, relying mainly on policy, an influx of funds, commissioning of a few large projects, and technological improvements to transform investment; only in part did industry rely on strengthened management, improved product quality, and reduced product costs to gain efficiency. Slowness in recognizing and understanding some problems and [the fact that] macroeconomic regulation and control measures did not keep pace also were causes of the first quarter's industrial production decline.

Guaranteeing the continued steady development of industrial production is directly related to the economic and overall political stability of our region. On 10 April Secretary of the Autonomous Region Party Committee Song Hanliang (1345 3352 5328) convened a meeting of the comrades in charge of departments responsible for economic work to listen to their ideas and discuss countermeasures. The autonomous region party committee and people's government have now taken specific measures to solve problems such as the current weak market, product stockpiling, and the decline in economic benefits. These measures will be implemented one at a time. First we must do a good job of resolving the problem of ideological understanding. Presently there is a point of view that believes that the region's industrial production slump during the first three months of this year is a delayed appearance of the weakening of the national market. Based on the experience of other regions in China, this phenomenon will persist for a period of time and it is a waste of effort to strive further now. This passive, waiting way of thinking is absolutely intolerable. We acknowledge the delayed phenomenon, but it is more important to note that, as the state has

already adopted seven favorable policies to resolve the weak [market] problem, it is entirely within our efforts to greatly shorten the duration of this delayed phenomenon.

Along with a weak market, there also are some commodity markets with a shortage of supplies. Looking at the commerce and supply and marketing departments' sales situation, most of the truly unmarketable [products] are high-priced, low-quality, with outdated colors, designs, and styles, or the supply exceeds demand. Yet for products that have the latest styles, high quality, and are inexpensive, supply is still unable to meet demand. Therefore, we should organize production according to market demand and work hard to adjust the product mix. Enterprises and responsible departments should quickly categorize products as in great demand, average sales, or unmarketable, and organize production of those in great demand, giving support in funding, raw and processed materials, and transport. For products that are unmarketable and have no prospects for development, we should stop production.

In the process of solving such problems as the weak market and product stockpiling, we should broaden our field of vision somewhat. While focusing on the market within the region, we should also focus on the domestic and international markets. While looking at the urban market, we should also look at potential markets in farming and grazing areas, on corps farms, and at factories and mines. We must change our old operation and service methods and adopt flexible pricing methods, go down to the grassroots units, deliver the goods to the doorstep, and vigorously promoting product sales. Commerce, supply and marketing, and goods and materials departments should act as conduits and "reservoirs," replenishing stocks, maintaining resources, and expanding sales by every possible means.

Currently it is extremely important to reinvigorate large and medium-size enterprises by every possible means. There are 115 large and medium-size enterprises under the ownership of the entire people in the region, and they account for 55.4 percent and 63.8 percent respectively of the output value and profit taxes of the region's independent accounting industries and enterprises. The enthusiasm of large and medium-size enterprises will play a key role in strengthening the region's economy and turning around the production decline. If large and medium-size enterprises strengthen their management, improve enterprise and staff quality, utilize employees' enthusiasm, manage effectively, improve technology effectively, and strive to increase production and increase income, they will be a main force in turning around the region's production in the second quarter.

We should emphatically point out that the difficulties we face are mainly in the industrial sector. Development in other areas is still basically good. We must realize the seriousness and complexity of the decline in industrial production and the arduous efforts [required] to solve the problems. We also must realize that the national

economy is presently developing in the direction designated by improvement and rectification, and the beneficial factors from overcoming difficulties are growing daily. So, rousing our spirits, heightening our confidence, and working in an earnest and down to earth manner will cause industrial production to come out of the deep valley as quickly as possible.

## SMALL-SCALE ENTERPRISES

### Township Enterprise Functions, Structure, Production Analyzed

90CE0174A Beijing JINGJI RIBAO in Chinese  
17 Apr 90 p 3

[Unattributed article under the rubric "Facts and Figures"]

[Text] Editor's Note: Not long ago leading officials in the State Council, when discussing township enterprises, pointed out that: "We need to evaluate the role of township enterprises in China's economic development." Township enterprises have come far in the past few years and have made a great contribution to the national economy and the people's livelihood. Experience verifies that China cannot do without township enterprises, and must abide by the policies and principles set forward by the central authorities to promote stable, healthy growth in township enterprises. Simultaneously, we must intensify propaganda about the role and status of township enterprises, so that the whole society, especially comrades involved in economic work, can gain a more thorough and practical knowledge of the subject and thus achieve a common understanding of the importance and necessity of township enterprises and the need to conform to the requirements of macroeconomics and state industrial policy. Here, based on data provided by the departments concerned, we will briefly introduce several aspects of the township enterprise situation in order to make it easier for all different trades and industries to help each other to increase their mutual understanding of the subject.

### The Major Strengths of the Publicly Owned Economy

#### 1. Collective Assets Worth Over 350 Billion Yuan Have Been Produced

In 1989 there were nearly 1.5 million enterprises at the town and township level alone, and these enterprises produced a gross output value worth 497 billion yuan. This constituted 17.41 percent of the gross value of social output, 41 percent of the gross value of rural social output, and 66 percent of the gross value of all township enterprise output for that year. Of this, the gross value of township industrial output amounted to 390 billion yuan, accounting for 24 percent and 75 percent, respectively, of the GVIO [Gross Value of Industrial Output] and the gross value of township industrial output. These

township enterprises produced collective assets worth 350 billion yuan, including more than 180 billion yuan in fixed assets.

### 2. Over 70 Billion Yuan Has Been Invested in Rural Construction

In 1989 the gross value of township enterprise production increased to 60 percent of the gross value of rural social production, up from 31.4 percent in 1978, and thus became the major component of the rural economy. In the past ten years more than 70 Billion yuan of township enterprise profits have been invested in rural construction projects of all kinds. In 1989 more than 92 million people were engaged in township enterprises, which thus occupied 62 percent of the net increment in the rural labor force since 1978, or one half of today's total surplus rural labor force.

### 3. It Accounts for One Fourth of the Net Increase in Peasant Incomes

Township enterprises have already become the economic mainstay in the effort to develop agriculture, particularly grain production. In the past 10 years township enterprises have applied 19.7 billion yuan directly to aid agriculture or in agricultural construction. This is approximately equal to one third of the state's budgeted investment in agriculture, forestry, water conservancy, and meteorology during the same period of time. Altogether, the 10 years of township enterprise wages and profits distributed among workers and staff comes to more than 480 billion yuan, or one fourth of the net increase in peasant income. In the past four years more than half of the net increase in peasant incomes has come from township enterprises.

## An Analysis of the Industrial Mix

### 1. Composition—Five Major Industries

Township enterprises include industry, construction, communications and transportation, commercial catering trades, and the five major agricultural trades. In the past few years, because of rapid growth in the township enterprise construction trades and tertiary industries, agriculture has declined as a percentage of the industrial mix among township enterprises, and the ratio of construction trades and tertiary industries has increased. As of 1988 township industries accounted for 69.7 percent of the industrial mix, construction trades comprised 7.3 percent, and commercial catering businesses made up 8.5 percent.

### 2. Proportions—Roughly Harmonious

In recent years light township industry has grown faster than heavy industry, and processing industries reliant upon agricultural raw materials have grown faster than those dependent upon nonagricultural raw materials. In 1988 light industry accounted for 53.1 percent of the value of industrial output in township and town enterprises, and of this amount, 58.4 percent came from

processing industries using agricultural and sidelines products as raw materials, and 41.6 percent came from processing industries using nonagricultural raw materials. Heavy industry accounted for 46.9 percent of the value of industrial output in township and town enterprises, of which the excavation industry and the raw and semifinished materials industries accounted for 28.8 percent, and processing industries accounted for 71.2 percent.

### 3. Primary Mix—Essentially Rational

Analyzing state industrial policy on a preliminary basis, of the industrial output value produced by enterprises at the town and township level, approximately 85 percent of it was produced by projects backed and permitted by the state. Of these projects, 35.4 percent are agricultural and sidelines processing industries, for which the state has assigned priority, 14.5 percent are energy and raw and semifinished materials industries, 14.5 percent are industries working to complement major industry, and the rest, accounting for about 35 percent, are composed of industries that provide daily necessities for rural and urban people or supplies for agricultural and industrial production, or they produce exports to earn foreign exchange.

## Production and Energy Consumption

### 1. Output Exceeds Consumption, both in the Energy Consumption System and the Energy Output System

In 1988 township enterprises consumed 150 million tons of raw coal, 50.8 billion kwh of electricity, 11 million tons of oil, and 10 million tons of coke—the equivalent of 140 million tons of standard coal. Township enterprises produced 320 million tons of raw coal and 11.3 billion kwh of electricity—the equivalent of 230 million tons of standard coal. Production and consumption offset each other and supplied society with a net surplus equivalent to 90 million tons of standard coal.

### 2. Township Enterprise Is the Major Source of the Net Increase in Raw Coal Output Over the Past 10 Years

Between 1978 and 1988 the output of raw coal in China grew from 618 million tons to 980 million tons, a net increase of 362 million tons. The portion produced by township enterprises jumped from 99 million tons to 323 million tons, a net increase of 224 million tons, or 62 percent of the net increase in coal output nationwide.

### 3. Returns on Energy Consumption Continue To Rise

Because we have readjusted the industrial mix and adopted various energy conservation measures, in township enterprises the energy consumption per 100 million yuan of industrial output value has declined.

In 1985 township industries consumed 56,800 tons of standard coal equivalents for every 100 million yuan of output value—1,100 tons more than the nationwide industrial average. In 1988 township industries consumed only 35,000 tons of standard coal equivalents for

every 100 million yuan of output value. This represents a 38 percent decline from 1985 and a level lower than the national average.

## FOREIGN TRADE, INVESTMENT

### Selling Land Use Rights to Foreign Businessmen

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[NANKAI ECONOMIC JOURNAL] in Chinese No 1,  
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[Article by Hao Shouyi (6787 1108 5030), Lecturer of Economics Department, Nankai University, and Li Zhulan (2621 4554 5695), of the Tianjin Public Security, Procuratorial, and Judicial Cadre College: "Several Viewpoints on China Selling Land Use Rights to Foreign Businessmen"]

[Text] According to incomplete statistics, China's special economic zones and economic and technological development zones have sold to foreign businessmen land use rights on 13 pieces of land with a total area of about 5.53 million square meters in the past two years (see table below). This has evoked strong repercussions at home and abroad, but people's understandings differ. At home, many people have expressed doubts out of concern for the motherland. The most pointed and important questions are: Isn't the selling of land use rights to foreign businessmen a selling of landownership in disguised form? Will it cause the loss of territorial sovereignty and the creation of new concessions? Are not the prices at which land use rights are sold to foreign businessmen too low in some areas? What is the point in selling land use rights to foreign businessmen? On these questions, we would like to present a few immature viewpoints in the hope that we may learn from those who know better.

#### I. The Relation Between Land Use Rights and Landownership

To answer the question of whether selling land use rights is selling landownership in disguised form, the key lies in correctly understanding the relation between land use rights and landownership. In law, land use rights and landownership are two related but different concepts. Landownership entitles the owner to possess, use, make a profit from, and dispose of his land according to law. In exercising his rights, a landowner may, within the limits stipulated by law, waive one or more of his rights and functions according to his own will and interest. By waiving and recovering his rights and functions, the owner constantly satisfies his needs and makes the most of his land. In contrast, land use rights are the rights of land users to directly operate or use land owned by others and make a profit from the operation or use of the land according to law or contract. In fact, land use rights are a part of the rights and functions of landownership temporarily relinquished by the land owner. This relinquishment is permitted by law. It does not mean the loss of ownership by the landowner, but is a form of the

owner exercising his rights. Because 1) in the circumstance, the landowner still ultimately owns the land; and 2) the landowner will gain certain economic benefits from the temporary relinquishment of rights and functions.

The separation of land use rights from landownership can take many forms. In China at present, it happens mainly in two forms, namely, the lease or sale of land use rights. The difference between the two: The lease of land use rights does not include any right to dispose of the land; the lessee may not transfer his land use rights; and to obtain the land use rights for a specific period of time, the lessee must pay a land use fee, that is, land rent, periodically to the lessor, the landowner. The sale of land use rights includes a limited right to make deals with the land; under specific conditions, the land use rights may be inherited, donated, transferred, and mortgaged by the assignee according to law; but, to obtain these land use rights, the assignee must, in addition to paying a land use fee periodically to the landowner, also make a one-time payment for the term of the tenure. Thus, the selling of land use rights has the legal characteristics of both sale and lease. But that does not mean that the selling of land use rights is equal to the selling of landownership, because neither the sale nor the lease of land use rights involves the transfer of title. In a sale of land use rights, the landowner still retains permanent title to the land and the final word on its disposal. Specifically, in selling land use rights, the landowner, as the assignee, has and keeps (1) the right to collect a price for the sale of the land use rights and periodical land use fees, (2) the right to stipulate the time length, scope, and purpose of land use and oversee that the assignee exercise the land use rights properly, and (3) the right to take back the land use rights and buildings and structures on the ground without compensation when the term of the sale expires. Thus it can be seen that although there is a difference between a sale and a lease of land use rights, it is only a difference in the degree to which land use rights are separated from landownership. In both cases, it is a temporary concession of land use rights by the landowner for a price, which will not in the least change the ownership. Therefore, there is no question of selling landownership in disguised form.

#### II. The Relation Between Landownership and Territorial Sovereignty

Once we are clear about the relation between land use rights and landownership, we can better understand the relation between landownership and territorial sovereignty and make clear whether selling land use rights to foreign businessmen can cause the loss of territorial sovereignty and the creation of new concessions.

In international law, territorial sovereignty refers to the supreme power of a country over its territory, which brooks no violation by any other country or individual, and its exclusive jurisdiction over all the people and things within its territory.

The major differences between territorial sovereignty and landownership are: (1) They are rights in two different kinds of legal relations. Territorial sovereignty is a subjective right in international legal relations, and landownership is a subjective right in civil relations. (2) Their subjects are different. Territory is one of the basic factors a country is made of, the material condition on which a country depends for existence. Territorial sovereignty is an important part and manifestation of a country's sovereign rights. Therefore, the subject of territorial sovereignty as a legal relation can only be a country; but land is a natural resource and basic means of production, and the subject of landownership as a legal relation can be a country, collective, or individual according to different systems of ownership. (3) They are different in content. Territorial sovereignty is the supreme power inherent of a country over its territory, and this power is indivisible and untransferable; but landownership is the right of the owner to possess, use, make a profit with, and dispose of, his land according to law, and in exercising his proprietary rights, the owner can divide the rights and functions of ownership and can also transfer the land use rights according to law. (4) Their objects are different. The object of territorial sovereignty is all the people and things in a country's territory; but the object of landownership is only the land and the improvements attached to it.

Because of the above-mentioned differences between territorial sovereignty and landownership, we cannot simply equate the selling of land use rights and even the transfer of landownership (as in some Western countries) with the loss of territorial sovereignty, and thereby draw the inference that selling land use rights to foreign businessmen will inevitably lead to the loss of the country's territorial sovereignty. In fact, today many countries and areas in the world allow foreigners to buy landownership and land use rights, but they do not think that they have lost their territorial sovereignty as a result.

Of course, we must also see that China is different from some Western countries. In China, land is publicly owned, and the land in the special economic zones and economic and technological development zones, where the law has provided for the sale of land use rights to foreign businessmen, is all owned by the state. This being the case, the selling of land use rights to foreign businessmen is bound to directly involve national interests. But we still cannot say that the country will lose its territorial sovereignty. Because the selling of land use rights by the state, as the landowner, to foreign businessmen is a civil, legal relation involving foreign nationals, it should be regulated by international private law. As required by international private law, the two sides in a civil economic relationship must respect the sovereignty of the host country. Foreigners in a country must abide by the local laws and decrees; all their activities, economic activities included, must not be harmful to the host country's sovereignty and independence; they must respect the host country's territorial integrity and permanent sovereignty over its natural

resources; and they should follow the host country's import and export trade, customs, tax, and other relevant regulations. In selling land use rights to foreign businessmen, China only grants the foreign businessmen the right to develop and use a piece of land according to relevant provisions of international private law, and all other rights still belong to the Chinese government. For example, the contract on the sale of land use rights signed by the Land Bureau of the Tianjin Economic and Technological Development Zone and the MGM Commercial Co of the United States clearly stipulates that the foreign company must observe China's constitution, the Land Law, and the Tianjin Economic and Technological Development Zone's administrative regulations, land management provisions. It also states that provisions on the sale and paid-transfer of land use rights—the project and enterprise to be started must observe China's Environmental Protection Law and Labor Protection Law and must be established according to Chinese laws and industrial policies. They must be examined and approved by Chinese governments at various levels, and all operations and activities of the enterprise must observe Chinese laws; as well, disputes about the land use rights should be handled by Chinese courts. At the same time, it stipulates that public security, planning, industrial, and commercial registration, taxes, customs, commodity inspection, and other matters will all be administered by the Chinese government, and no extraterritoriality will be allowed to exist. Therefore, in selling land use rights to foreign businessmen, the question of whether it will lead to the loss of territorial sovereignty and the creation of new concessions does not exist.

### III. The Price of Land Use Rights

Should prices be set high or low in selling land use rights to foreign businessmen? This is a complicated question involving how prices for land use rights are determined.

In China, the price for land use rights refers to the price for the use of land for a specific length of time determined by agreement between the assigner (the state or relevant government department) and the assignee (Chinese or foreign business qualifying as a legal person), or by bidding or fair auction.

To determine the price for land use rights, it is necessary first of all to give comprehensive consideration to such factors as the natural situation of the land (for example, its geographical location, natural and geological conditions, etc.), its economic situation (for example, the present state and future prospects of the area's economic development, land development investment cost, and loan conditions), and the number of years the land may be used. Generally speaking, the better the natural and economic conditions of the land are and the more years it can be used, the higher the price of the land use rights will be. In reality, however, the situation is much more complicated. For example, the Tianjin Economic and Technological Development Zone [ETDZ] and the Yangpu Economic and Technological Development Zone in Hainan have sold the use rights on two pieces of

undeveloped land to foreign investors, both for a period of 70 years. The land in the Tianjin ETDZ is very poor in geological conditions, but its geographical location and the infrastructure and economic development of the surrounding areas are much superior compared with the Yangpu ETDZ in Hainan. Hence the price of land use rights in the Tianjin ETDZ is higher than in the Yangpu ETDZ. Comparing the Tianjin ETDZ with the Hongqiao ETDZ in Shanghai, the two are about equal in their geological locations and the infrastructure and the present status and future prospects of economic development in their surrounding areas. However, the land of the Hongqiao ETDZ is developed and ready for use, while the land of the Tianjin ETDZ is basically undeveloped, salty wasteland. Hence, even though the use period is longer in the Tianjin ETDZ (70 years) than in the Hongqiao ETDZ (50 years), the price of land use rights is much lower in the Tianjin ETDZ than in the Hongqiao ETDZ. This is because to develop the "unprepared land," installing the seven components of infrastructure and leveling the ground, and turn it into a "prepared site" for construction, it is necessary to invest a large amount of money, and the investor must take a big risk. And, because of the risks and other factors, financial institutions abroad generally refuse to extend loans for the purchase of undeveloped land, and investors have to raise large sums of money on their own for land acquisition and preparation. Under these circumstances, the price for the use of undeveloped land acceptable to foreign investors cannot be too high.

To determine the price of land use rights, the effects of various factors on the land market must also be considered. Land use prices are shaped in the land market, and they are bound to be influenced by market supply and demand and the competitive mechanism.

In China, all the land in the special economic zones and economic and technological development zones belongs to the state, and the state, as the sole assigner, monopolizes the supply of land use rights. But we must also see that various types of export-processing zones for foreign investors are also being established abroad, especially in countries and areas around us in the Asian-Pacific region. To attract foreign investment, they all offer to lease or sell land to foreign businessmen at preferential prices, thus competing with China in the supply of land. Under the circumstances, China will lose its competitive edge, if prices for land use rights are set too high. From the demand angle, whether there is a great demand and strong competition for the use of land, that is, whether it is a "seller's market," makes a great difference on the price of land use rights. For example, when Shanghai's Hongqiao ETDZ put two pieces of land on the market, many foreign businessmen took part in the competitive bidding, and the land use rights were awarded to the highest bidders. In contrast, when the Hainan government announced through a press conference the availability of stretches of land at the Yangpu ETDZ, only one Japanese firm showed up for negotiations. When the Tianjin ETDZ offered land use rights to foreign investors, only one U.S. company expressed interest. This is

an important reason why the prices of land use rights at Hainan's Yangpu ETDZ and the Shanghai ETDZ are much lower than at Shanghai's Hongqiao ETDZ.

Last and most important, when determining the price for land use rights, consideration must be given to the overall benefit the sale of land use rights will bring to China. That is, we must not only consider the price of land use rights itself, but also pay attention to the benefit it will bring to the country as a whole. Take the Tianjin ETDZ for example. It sold the use rights on 5.36 square kilometers of land to a foreign investor for a period of 70 years, and at \$3.25 per square meter, it was paid a total price of \$17.42 million. Beginning in the 6th year after the signing of the contract, the Chinese government will also collect a land use fee of 1 yuan (renminbi, same below) per square meter and will retain the right to readjust the land use fee. Even at 1 yuan per square meter, it will amount to 5.36 million yuan a year and a total of 375.2 million yuan in 70 years. Within five years of the signing of the contract, the foreign firm will invest nearly \$1 billion on the site. An estimated \$2 billion in industrial investments will also be drawn here in 10 years, which will produce an annual output value of about 10 billion yuan. In the coming 10 years, the Chinese government will collect more than 200 million yuan in tax revenues each year from the ETDZ. In the meantime, if the land is transferred, the Chinese government will collect a 10-30 percent increment tax on land value. Moreover, the foreign investor will build an industrial complex on the site, which will bring us advanced technology, equipment, and industrial complex management experience, accelerating the development of the Tianjin ETDZ and giving impetus to the development of Tianjin from a trade port to a modern, international, integrated, industrial, and trade port city. Thus, judging by the overall benefits, it is a good bargain for our country to sell land use rights to foreign investors.

#### IV. The Significance in Selling Land Use Rights to Foreign Investors

First of all, China's selling land use rights to foreign investors is a new development of the Marxist land rent theory. Based on a deep analysis of the issue of capitalist land rent, Marx and Engels accurately predicted that in socialist society land lease, and therefore land rent, will continue to exist. They pointed out: "The elimination of private land ownership does not require the elimination of land rent, but requires that land rent—although in a changed form—be handed over to society. Therefore, the actual possession of all instruments of labor by the working people does not in any way exclude the renting of land."<sup>1</sup> It is obvious that the selling of land use rights to foreign investors by our country signifies, first of all, a correct understanding of and adherence to the Marxist land rent theory. At the same time, it also signifies development. Although the founders of Marxism were convinced of the continued existence of land renting, they did not raise the question of paid-transfer of land use rights because they believed there could be no commodity economy under socialism. However, in

socialist practice, people have gradually come to understand that not only is the existence of a commodity economy inevitable in the present stage of socialism, but a planned commodity economy is also an important characteristic of the present stage of the socialist economy. The theory and practice of China's selling land use rights to foreign investors are gradually formed and perfected in the course of the structural economic reform to establish a new order of socialist, planned commodity economy, and are of great significance for further enriching and developing the Marxist land rent theory.

Secondly, the selling of land use rights to foreign investors is a major breakthrough in the reform of China's urban land use system. Implementation of paid use of urban land and permission to sell and transfer land use rights, while maintaining state ownership—this is the most important part of China's urban land reform. However, because various economic relations and channels (for example, taxes, prices, etc.) have not been rationalized yet, and because a sound urban land market system is still lacking, most of the domestic enterprises, as urban land users, are still unable to bear the financial burden of paid use, occupation, and transfer of urban land. Thus, at present, conditions are still not quite ready for the general implementation of a system under which urban land users must pay for the land they use and may sell and transfer their land use rights. Under the circumstances, to accelerate the reform of the urban land use system, it is necessary to consider a different approach: to sell land use rights to foreign businessmen where conditions permit. As foreign enterprises are operating basically according to international practices, they are subject to relatively fewer restrictions than Chinese enterprises and are able to pay for the use of our urban lands. By selling land use rights to foreign businessmen, we can constantly sum up and accumulate experiences in land management according to the laws of the commodity economy and create the conditions for establishing and perfecting an urban land market mechanism

step by step and for the general implementation of a system of paid use and transfer of urban lands, which is of great practical significance in speeding up the reform of our urban land use system.

Thirdly, the selling of land use rights to foreign businessmen marks a new step China has taken in opening to the outside world. The main manifestations are: (1) By selling land use rights to foreign businessmen, China has opened a new way to bring in and make use of large amounts of foreign capital. There are many ways and forms to bring in and make use of foreign funds, but, by comparison, selling land use rights to foreign businessmen involves less risk for China and can bring in more foreign capital. In buying land use rights from China, foreign investors not only have to pay a considerable amount of money for the land use rights, but also must invest heavily for the development and use of the land. After completion of the land development, the foreign businessmen will use their influence and commercial channels to attract large amounts of additional investment. Obviously this will help China by speeding up the inflow and utilization of foreign funds to serve China's four modernizations. (2) By selling land use rights to foreign businessmen, China has further improved its investment climate for foreign investors. To build factories and open stores in China, foreign investors will need land. The selling of land use rights to foreign businessmen shows that China is not only opening its doors wide to the outside world, but providing foreign investors with what they need. It certainly will increase foreign businessmen's interest and confidence in investing in China. And in the practice of selling land use rights to foreign investors, we can constantly acquaint ourselves with international commercial practices, perfect our laws, regulations, and administrative procedures concerning the introduction and utilization of foreign capital accordingly, thus, further improving the intangible conditions for foreign business to invest in China and open wider to the outside world.

Sales of Land Use Rights by China to Foreign Investors, 1988-1989

Location of Land	Area (M <sup>2</sup> )	Assignee	Form of Sale	Number of Years	Land Condition	Price per M <sup>2</sup>
Middle Section, May 4 Road, Fuzhou Development Zone	3,090	Hua Jung Co, Hong Kong, and others	Auction	80	3 infrastructure components, leveled ground	1,482.20 yuan
88-C3, East of Bus Station, Xiamen	4,648	Tien An China Investment Co (Hong Kong)	Auction	50-70		1,204.82 yuan
88-C4, East of Bus Station, Xiamen	2,626	Taiwan compatriots	Auction	50-70		1,408.99 yuan
88-C5, West of Shuixian Bldg, Xiamen	6,030	Hsin Ho Property Group, Hong Kong	Auction	70		1,310.12
88-C6, at Intersection Between Fuxia Road and Lianyue Road, Xiamen	6,000	Hsin Ho Property Group, Hong Kong	Auction	50-70		1,033.33

## Sales of Land Use Rights by China to Foreign Investors, 1988-1989 (Continued)

Location of Land	Area (M <sup>2</sup> )	Assignee	Form of Sale	Number of Years	Land Condition	Price per M <sup>2</sup>
H308-Z, Maguling, Shenzhen	16,455	Wang Huimin (Hong Kong)	Tender	50	3 infrastructure components, leveled ground	\$108.17
Lot 26, Hongqiao Development Zone, Shanghai	12,927	Sun Shi Enterprise, Ltd, Japan	Tender	50	7 infrastructure components, leveled ground	\$2,710.26
28-3C, Hongqiao Development Zone, Shanghai	3,600	Pu Hao Investment Co, Hong Kong	Tender	50	7 infrastructure components, leveled ground	2,300
Guangzhou Development Zone	4,348	Wei Pei Development Co, Hong Kong	Agreement	50	5 infrastructure components	HK\$1,600
Guangzhou Development Zone	10,145	Hua Ti Development Co, Hong Kong	Agreement	50	5 infrastructure components, leveled ground	HK\$570.70
Guangzhou Development Zone	8,494	Hung Ya Development Co, Hong Kong	Agreement	50	5 infrastructure components, leveled ground	HK\$572.20
Sankuaidi, Haikou, Hainan	92,000	Hong Kong, Taiwan, Japanese firms		70		
Tianjin Development Zone	5,360,000	MGM Co, U.S.	Agreement	70	Undeveloped	\$3.25

Note: Not included is a stretch of land about 30 square kilometers in area in the Yangpu Development Zone, Hainan. Hainan Province has agreed to sell the land use rights to the Kumagai Gumi Co (Hong Kong) Ltd of Japan, pending the signing of a sales contract.

## Footnotes:

1. *Selected Works of Marx and Engels*, Vol II, p 545.

## Impact of Renminbi Devaluation on Foreign Trade

90CE0161A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 3, 31 Mar 90 pp 16-20

[Article by Lin Guijun (2651 2710 6511): "Analysis of Renminbi Devaluation"]

[Excerpt] [passage omitted] 4. Foreign Trade

To summarize, the devaluation has two main goals as follows: The first is to cancel out the disadvantageous effect on export commodity prices of domestic prices rises during the past several years. The second is to promote an increase in exports, using the foreign exchanged earned from exports to support increases in imports.

According to prevailing theory, a fairly great correlation exists between a country's export volume and the speed of its economic growth. The faster the economic growth, the greater its export volume; and conversely, the smaller. Use of a regression model in the calculation of data from 1978 through 1988 shows existence of the following correlation between the country's imports and its gross national product:

$$Mt = -23.38 + 0.0422 Yt + 0.1639 Mt_{-1} \quad (7)$$

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$$R^2 = 0.985, S^2 = 141.2$$

In this formula Mt is the amount of imports in any given year expressed in terms of \$100 million. Yt is China's actual gross national product, expressed in terms of 100 million yuan. Mt<sub>-1</sub> is the one-year lag import volume.<sup>1</sup>

Results of the foregoing model show a 100 million yuan annual increase in gross national product, imports increasing approximately \$4 million. At the same time, we are also able to discern a substantial effect of the previous year's imports on this year. Use of this model to forecast 1989 imports yielded a \$42.4 billion figure. This was higher than the actual value of 1989 imports. It is estimated that imports during 1990 will be approximately \$36 to \$37 billion.<sup>2</sup> The reason for such a large forecasting error was that the government took some extraordinary actions with regard to imports during 1989 that changed the structure of the model. These extraordinary actions may last for a long time, so it is difficult to reach a conclusion now. Assuming a revival in 1990 of the stable correlation that has existed between China's imports and gross national product during the past 10 years, gross national product increasing by six percent in accordance with central planning, the model forecasts imports of \$44.286 billion for 1990.<sup>3</sup> If the \$7 billion in foreign debt due for repayment is added in, total payments will come to approximately somewhat more than \$51.3 billion.

Can China's exports sustain such a large foreign exchange payment? An analysis of the trend shows that China's exports increased an average \$3.695 billion each year from the period 1982 through 1988.<sup>4</sup> If this trend continues, estimates call for exports from China worth

\$46.626 billion during 1990, and as much as \$50.321 billion in 1991. Thus, the country's foreign exchange shortfall for 1990 is estimated at approximately \$4.6 billion. The size of pressures this year will determine both the size of the 1989 favorable trade balance, and also the amount of foreign credit required. Right now, it seems that the preferable method is to both restrict imports and borrow money in combination. The following three ways can be used to repay foreign debt: One is to make new loans to repay old ones; second is repayment out of a favorable trade balance, which means cutting back imports and expanding exports; and third is to use foreign exchange reserves. It is anticipated that during the debt repayment peak period of the next several years, all three methods will be used at the same time, only the emphasis of each of the methods changing as different circumstances warrant. Too large cutbacks in imports may cause numerous difficulties for steady national economic growth. If 1990 imports are greatly lower than the predicted \$44.2 billion, a six percent speed of increase in the gross national product will become problematical. Therefore, circumspection and a prudent attitude are required in cutting back imports. At the same time, preparations must be made for all eventualities, a good job done in readjusting the industrial structure and in promoting domestic production of substitute products. One of the reasons for China's great reliance on imports for economic growth is that very much domestic production potential is not used to the full. Overall, the outlook for debt repayment during 1990 is optimistic. A satisfying speed of increase in exports will greatly ease pressures in all regards.

From the foregoing analysis, we are able to discern that for the next several years pressure to export will be extremely great on the entire national economy. The present devaluation may be said to be a step in the direction of solving the foregoing problems. The devaluation actually plays a dual role simultaneously with regard to import duties and export subsidies, namely that while increasing importing enterprises' duty payments, it also increases exporting enterprises' receipts. We may regard this process as one in which importing enterprises subsidize exporting enterprises. The state's continuation without change of its various preferential policies regarding exports following devaluation gave impetus to exports.

For China, an expansion of exports depends on numerous factors. In the short run, one has to look to the opening of marketing channels in the near future, sources of supply of goods, foreign economic growth, and price movements. Of these factors, it is readjustment of exchange rates that have a direct effect on export prices, i.e., the prices of China's export commodities relative to prices of foreign commodities. In a situation of no change in other conditions, changes in relative prices may affect the competitiveness of a country's products in international markets, but whether an increase in exports will be able to increase foreign exchange earnings depends on export commodity price demand elasticity.

The authors' rough calculations show a price elasticity of approximately -0.0119 for China's export prices, i.e., an absolute value for elasticity of less than 1.<sup>5</sup> This shows that we must not take the road of expanding exports by lowering prices unduly, but rather that we should concentrate our energies on developing markets, increasing supply, improving product quality, and doing a good job of advertising and publicizing.

### 5. Conclusions

To summarize the above, overall this devaluation has a positive function. Gradual resolution of the problem of a high renminbi exchange rate will help the country's reform and opening to the outside world. However, changes in the exchange rate level cannot be divorced from the country's prevailing price system; the two must go along in tandem. During the next several years, China's imports cannot increase too rapidly for this would be bound to produce a definite adverse effect on domestic production; thus, expansion of exports becomes an even more urgent task. Because of the relatively slight elasticity of China's export demand, during the near term, a strategy of lowering prices in order to expand exports should not be adopted; rather, efforts should be applied elsewhere.

### Footnotes

1. The three year movable average figure was used to process import data for each year. The actual gross national product was figured from the gross national product index. Source of data was the Chinese Foreign Economic Relations and Trade Yearbook, 1989; and the Chinese Statistical yearbook, 1988.
2. As of 20 December 1989, the country's total imports stood at \$34.29 billion.
3. According to newly published figures, China's imports for 1989 totaled \$38.27 billion. At this rate, imports for 1990 are forecast at \$44.4 billion.
4. The formula for estimating trends is  $ET = 133.71 + 36.95t$ , Et being annual exports and t being the year. Source of Data: *Chinese Foreign Economic Relations and Trade Yearbook*, 1989.
5.  $\log Et = 0.4333 - 0.0119 \log Px + 0.8489 \log Et_{-1}$ . Et equals amount of exports. Px equals the export price index. Data for the period 1978 - 1988.

### Update on Shanghai's Promotion of Export Agent System

90CE0248A Beijing GUOJI SHANGBAO in Chinese  
12 Apr 90 p 2

[Article by correspondents Yao Ximin (1202 6932 2404) and Chen Xueyan (7115 1331 3601): "Accomplishments and Problems in the Export Agent System Promoted by Shanghai"]

[Text] Vice Minister Li Lanqing (2621 1526 3237) said, the Ministry of Foreign Economic and Trade Relations [MOFERT] fully endorses Shanghai's experimental promotion of the export agent system and hopes that Shanghai will continue the experiment and not retreat from it.

During April of last year, Shanghai's textile system began to institute the dual-line contract export agent system. How, then, has Shanghai's export agent system performed during the one year that has by now passed?

## I.

Shanghai officially instituted the export agent system in April of last year on the basis of past experiences in special pilot projects, first carried out in the textile industry. Up to now, almost 300 factories producing textiles for export have signed "dual-line contract export agency" agreements with suitable foreign trade corporations. Besides, some electromechanical and light industry factories too have tried out the export agent system. Presently, altogether over approximately 310 enterprises manufacturing products for export are using the export agent system. They make up 15 percent of all enterprises producing export goods and have accounted for 30 percent of last year's plan norm for exports through the port.

Compared with the foreign trade contract system, the most striking peculiarity of the export agent system is that the manufacturing enterprises undertake directly to fulfill the three exports, exchange collection, etc. norms, which in the past had been the responsibility of the foreign trade corporations. To have both sides, industry and trade, jointly undertake responsibility for export obligations, and to have the contract norms decided upon for the manufacturing enterprise that work with the export agent system, at the same time apply as norms for the relevant foreign trade corporation in respect of its agency undertaking, a "dual-line contract" is being instituted, in which industry and trade are tied up with each other. However, due to restraints by various conditions, it is impossible in the large-scale implementation of the agency system to attain the results originally demanded by the agency system with regard to the division of duties and rights as between industry and trade and as to the actual forms of the agency, in just one short step. It rather requires a protracted process to change gradually from the procurement system to the agency system, and it also requires adoption of a systematic and well-adapted method:

The responsibility for overall export profits and losses, which under the procurement system was essentially borne by the foreign trade corporations alone, and the regulatory functions, such as the provision of raw and supplementary materials, arrangements at the customer's place, use of allocated quotas, etc. cannot yet, at the initial stage of the agency system, be made a responsibility of the manufacturing enterprises. It is therefore necessary to adopt basically a method of having the manufacturing enterprises entrust foreign trade corporations with their representation during the entire process. This comprises the obligation, still resting with the foreign trade corporations, to raise capital or take up loans, and for the manufacturing enterprises the obligation to later refund the loans which had been advanced by the foreign trade corporations.

Shanghai has employed diverse agency patterns, some deeply penetrating and some of a more shallow nature, according to the specific conditions of the various trades. For instance, a deeply penetrating agency pattern was adopted in arrangements between the cotton spinning and weaving industry, or the textile printing and dyeing industry, and the textile export trade corporation. In arrangements between the knitwear industry and the knitwear export corporation, the agency system that was applied for the entire export process was one of "five representations and five opennesses" (i.e. representation by agent in raising funds, in foreign exchange adjustments, in verifying prices, in handling tax or customs duty refunds, and in the payment of a certain proportion of the price for the goods involved; openness in business contracts, in all documents and certificates, in receipts and uses of foreign exchange, in the use of allocated quotas, and in charges and expenses). In the arrangements between the clothing trade and the clothes export corporation, consideration was given to the fact that the foreign trade corporation is presently making all arrangements for fabric and for processing, so that a very shallow agency pattern was adopted in this case, namely essentially maintaining the method of the procurement system in this case, on the principle of "dual-line contracting."

Although the degree of agency representation was sometimes of a deeply penetrating and sometimes of shallow nature, the export agent system, compared with the procurement system, was always characterized by being systematic and legally founded. In the procurement system, the manufacturing enterprise was in the position of a supplier of goods. In the agency system, the legal position of the manufacturing enterprise changed to that of a principal in an agency relation. In the procurement system, the relationship between industry and trade was merely one of buyer and seller, the manufacturing enterprise being the seller and the foreign trade corporation the buyer, while in the agency system, the industry-trade relationship has become one of principal and agent, with interests of both sides tied together, and the individual objectives of each, industry as well as trade, being to effect exports and earn foreign exchange. In the procurement system, the manufacturing enterprise merely had to supply the goods to the foreign trade unit according to the provisions of the contract, and it would thereby fulfill all its obligations, without taking part in export negotiations, as all price quotations to the foreign buyers and negotiations with them were handled by the foreign trade corporation. In the export agent system, on the other hand, although contracts with abroad are still signed by the foreign trade corporations, the three norms governing the exports will be a responsibility of both industry and trade. Together with the foreign trade corporation, the manufacturing enterprise may have contacts with foreign buyers and participate in price quotation and price negotiations, and may directly inform itself of international market conditions, so that industry and trade will then jointly exert their efforts

toward the manufacture of marketable products and toward the opening of export channels.

## II.

One year's practice of the export agent system throughout the entire textile industry of Shanghai clearly shows that it is indeed an excellent method for Shanghai's textile industry to extricate itself from its difficulties, and particularly to expand its exports. The export agent system has enabled the textile industry bureau to rectify in the second quarter of last year the steep decline of the first quarter, namely to achieve a 15 percent increase over the first quarter. After instituting the agency system, exports of Shanghai's textile products and foreign exchange earnings have increased month after month. Especially in the four months from July to October, foreign exchange earnings turned over to the state every month continuously exceeded \$100 million, and the total foreign exchange turned over to the state during the year exceeded the anticipated \$1.02 billion as it reached \$1.12 billion. The export agent system has the following advantages:

1. It distinctly enhances determination on the part of manufacturing enterprises to increase exports and foreign exchange earnings.

In the past, enterprises were only concerned about achieving profits in fulfillment of their domestic contracts, but now enterprises not only contract for domestic profits, but also contract for foreign exchange earnings through exports. In case of conflict between the two objectives, it is generally possible to come to an overall arrangement that will take care of both. In the past, enterprises were only concerned about completing delivery of the finished products to the foreign trade corporations, but their attention is now also directed from the mere increase of quantities to raising sales prices of their products through such measures as the adjustment of product mix, through an improvement of quality, through punctual deliveries, and to endeavors to reduce costs and to increase foreign exchange earnings. According to statistics, during the period from January to September of last year, alterations in the product mix of the textile bureau extended to 6.78 percent of its products. The average count in cotton yarn was raised to 31.86 counts, a reduction of 1.06 counts, compared with the year before last. This not only raised the level of foreign exchange earnings per unit, but also reduced cotton consumption by about 1.5 tons.

2. The agency system gradually established a business and management system which was suited to the export-oriented economy.

Instituting the agency system has brought about a closer relationship between industry and the international market, and it reinforced industry's primary role in export business activities. This inherent motivation has spurred on a strengthening of the internal management and decision-making policies concerning business operations throughout the whole system, in order to conform

to the demands of the export-oriented economy. Aiming at this special characteristic of close internal cooperation and supplementation within trades, this "one thread that determines one's whole life," as the saying goes, the textile bureau has set up a production coordinating office to enhance control of the distribution of cotton yarn and gray cloth, to stop the drain on semifinished cotton yarn and gray cloth, and to have a limited amount of yarn and cloth diverted to exports and the earning of foreign exchange. For the purpose of training qualified staff for employment in foreign trade, the bureau has instituted short-term training courses for over 400 persons of factory-rank leadership personnel in charge of promoting the agency system, has trained more systematically 437 administrative cadres engaged in the "agency system," and organized television courses on foreign trade affairs for over 2,000 business cadres. The bureau and the corporations also set up certain offices to concern themselves with contracts, deliveries, receipt of foreign exchange, use of allocated quotas, etc.

3. The agency system brings industry and trade closer together and allows the advantages of both parties to be brought fully into play.

Implementation of the agency system brings together two formerly disjointed objectives, namely that of industry, which only cared for profits, and that of the foreign trade corporations, which only cared for earning foreign exchange. With "earning foreign exchange" now being their common objective, the two entities, industry and trade, are tied together. The municipal economy and trade commission and the textile bureau periodically meet to coordinate activities and attend to the prompt resolution of difficulties in the smooth implementation of the agency system. The Shanghai Knitwear Export Corporation is cooperating with the Joint Knitwear Corporation. They are actually "singing the same tune" in their efforts to develop the export market for knitwear. When they saw that 32-strand and 38-strand combed high-resilient knitwear was selling extremely well in Europe and Japan, the enterprises eagerly adjusted their machinery and expanded the production of combed high-resilient products, while the foreign trade corporation helped the enterprises open new channels for the supply of combed yarn and then also energetically pushed sales to the various far away overseas territories of Europe and America. During the period from January to September of last year, the Joint Knitwear Corporation from its exports turned over to the state \$11.25 million of foreign exchange, for the first time exceeding the annual contract norm, which is set as a demand for expected export progress.

## III.

However, implementation of the agency system on a grand scale is only in its initial stage and therefore still beset with many difficulties and problems.

1. The Problem of Circulating Capital

On implementing the agency system, manufacturing enterprises are in need of much more circulating capital. The main reason for this is that under the procurement system of the past, enterprises could receive payment as soon as their goods were delivered to the warehouse of the foreign trading corporation. However, upon implementing the agency system, the entire production and business process is extended into the sphere of the international market, and the enterprises have to await payment by the foreign buyer to recover their circulating capital. In this way, the time of capital turnover is increased three to four times, compared to the time it took under the procurement system. Second, on implementing the agency system, goods in storage at the foreign trading corporations become a responsibility of the manufacturing enterprises, which have to prepare funds that will be tied up for several months by goods in warehouses. Furthermore, to enhance merchandise quality for continued competitiveness in the international market, enterprises must increase reserves of raw materials and increase reserve capital. But under the present conditions of general financial stringency, manufacturing enterprises will generally be short of circulating capital, and some will even find themselves in the predicament of having no money to buy raw materials.

## 2. On the Problem of Responsibility, Rights, and Profits

For instance, as the allocated quotas for export commodities had all along been in the hands of the foreign trade corporations, industry, after instituting the agency system, is disgruntled about not having control over quotas, a fact that might adversely affect exports. When operating under the procurement system, export commodities manufactured by enterprises had their trademarks registered and used abroad by the foreign trade departments. On implementing the agency system, the manufacturing enterprises directly enter the international market must create their own brands of commodities, and demand possession of the trademarks for their own commodities, which had been registered by the foreign trade corporations; while, on the other hand, the foreign trade corporations had expended much energy and material resources on the registration of the trademarks for these export commodities. Transferring these trademarks now to the manufacturing enterprises would indeed entail certain difficulties for the foreign trade corporations. Then again, for instance, under the patterns of the procurement system, raw and semifinished materials used by the manufacturing enterprises in the production of export commodities were to a considerable proportion provided by the foreign trade corporations according to their export contracts. On implementing the agency system, the foreign trade corporations will no longer provide raw and semifinished materials to manufacturing enterprises, who will have to fend for themselves in this matter. This will be a difficult problem for the manufacturing enterprises. Because raw materials are in short supply, many enterprises manufacturing export commodities have frequently had to stop production because of the shortage of

raw materials, thus finding themselves in the position of the proverbial housewife who, no matter how clever, cannot cook a meal without rice.

## 3. Enterprises Have Reduced Chances To Equal Out Profits and Losses

Under the procurement system, foreign trade corporations handled a large variety of products, some with profit, some incurring losses, some with small and some with large losses, and these matters could be adjusted and controlled by appraising and determining costs, so that there was a large margin of tolerance. On implementing the agency system, manufacturing enterprises will be responsible for their own losses and profits; but, because they manufacture singular items, there is little margin for adjustments and not much tolerance.

## 4. The Problem of Qualified Personnel for Employment in Foreign Trade

On implementing the agency system, manufacturing enterprises will participate together with the foreign trade corporations in such business operations as trade negotiations, price quotations, price determination, signing of contracts, and the completion of transactions with foreign buyers. They require for this purpose personnel well versed in foreign trade affairs, such as personnel to transact overseas sales, translators, personnel familiar with financial matters, etc. Because it is temporarily not possible to provide for all the needs of this operational mechanism, availability of personnel is out of line with requirements and will make it difficult to achieve any development in these business operations.

Vice Minister Li Lanqing pointed out that MOFERT fully endorses the experiments that Shanghai is carrying out with the export agency system, and hopes that it will continue the experiment and not retreat from it, because it is only through practice that experiences can be accumulated and evaluated. Only by the joint efforts of industry and trade, by their mutual understanding and mutual accommodation, and, additionally, by their complementary measures, can we expect with certainty that new advances will be achieved in Shanghai's export agent system.

## Strategy for Adjustment of Foreign Trade

90CE0235A Beijing GUOJI SHANGBAO in Chinese  
28 Apr 90 p 3

[Article by Li Yuyi (2621 5940 1355) and Xue Jinjun (5641 6651 6511): "A Discussion on Adjusting Foreign Trade Strategy"]

[Excerpt] [passage omitted]

## 2. The Influence of the Adjustment of Western Countries' Economies on China

As for China, although presently there is both challenge and opportunity, the challenge is greater. To put it more seriously, in confronting the substantial adjustment of

the world's economy and foreign trade, China's economic and foreign trade development will encounter serious difficulties. First, the sources for introducing foreign capital into the country could decrease. Second, labor-intensive, traditional exports will encounter even stronger competition, and the volume of exports could be substantially restricted. Third, if China continues to put great effort into developing industrial products which are labor-intensive, it could miss the opportunity to adjust its industrial structure, and thus it will remain at an elementary level, while foreign trade continues to remain at a low level. Fourth, China could introduce some obsolete products and energy-intensive and highly-polluting industries which, when added to the fact that some equipment which has been introduced domestically has entered a high maintenance period and some products are already obsolete, could result in the emergence of a tendency towards stagnation in exports.

For this reason, we believe that it is necessary to adjust China's foreign trade development strategy as quickly as possible, and to formulate foreign trade and industrial policies suited to China's situation. The foreign trade development strategy that has been put forward in recent years is in fact a coastal economic development strategy, and is based on the strategic concept of the "great international cycle." This strategy has already been subjected to a more systematic critique. Here we will again stress the following points:

1. This strategy is based on the development experience of Asia's four NIE's [newly industrialized economies]. An export-oriented development model is appropriate for these countries because they have small land areas, small populations, the agricultural sector of their economies is small or nonexistent, natural resources are extremely limited, and their economic and technological base is excellent. However, China has a vast land area, a large population, a predominantly agriculturally based economy, and existing "diversified" economic structures. The experience of these countries and regions may not be fully suited to such a large, developing socialist country as China, and for this reason cannot be indiscriminately copied.

2. The capacity of China's domestic market is quite large, and major gaps still remain in meeting domestic demand. For this reason, the development of foreign trade has been primarily directed at satisfying domestic demand, which is not suited to the adoption of a national development strategy based on exports (an export-leading strategy). Therefore, in areas with appropriate conditions export production and foreign trade can be stressed. But looking at the country as a whole, it is suitable to adopt a "general export-oriented" economic strategy, which requires both expanding exports and emphasizing meeting domestic demand. Otherwise, lopsided development of the economy could emerge, giving rise to the problem of "producing solely for export."

3. Because adjustment of the international economic structure presents China with greater challenges than

opportunities, we cannot be overly optimistic. We should realize that if China adopts unsuitable policies, it could miss this opportunity to adjust its industrial structure, and this could create difficulties for foreign trade development over the long term. On the other hand, the four NIE's [industrial] market transferred overseas is not very large, and a considerable portion of their market capacity is already saturated, their products are becoming obsolete, and others are not going to hand things to us on a silver platter. China's products will encounter fierce competition from such countries as the four NIE's and Thailand. For this reason, the hope that China's products can capture the markets transferred overseas by the four NIE's and others, thereby facilitating employment for a labor force of some 60 million, is unrealistic to a large extent, and if hastily implemented, serious errors could occur.

4. The tactic of "both ends abroad, greater imports and exports" also does not conform to China's situation. Because it is based on the circumstances of small countries with no natural resources, and is a tactic implemented after a firmly export-oriented economy has developed, it is not suitable for a large country like China. In terms of importing raw materials, first, import costs are high and China has a shortage of foreign exchange; and second, it could impede development of China's raw and semifinished materials industries. In terms of product export, we must not allow ourselves to be optimistic about the competitive ability and market share of these products on the international market. The foreign trade policy adjustments of Asia's four NIE's show that cheap labor is no longer a major competitive advantage; the fact that a large portion of international investment is flowing to developed countries indicates that high technology is the new competitive advantage. Hence if China implements a "both ends abroad" export policy, the difficulties will be predictable. In addition, "greater imports and exports," would make it harder to support China's ability to make foreign exchange payments, because [while] it is easy to increase imports, it is hard to increase exports.

### 3. Basic Principles for Adjusting China's Foreign Trade Strategy

The strategy of "greater imports and exports" does not conform with China's situation, and continued implementation of this policy will have serious consequences for China's economic and foreign trade development. Hence we believe that when adjusting China's foreign trade development strategy, it is necessary to at least consider the following principles: Begin with the fact that China is a socialist developing country, and make satisfying domestic demand a basic goal. Fully consider the diversified nature of the domestic economy and the tremendous differences in regional development. Concentrate on China's export advantages, pay attention to timely adjustment of industrial structures, and give full consideration to the developmental needs of agriculture and basic industries. When considering drawing on labor and employment, consider factors such as increasing

work force quality and improving technology, thus developing foreign trade in a healthy and stable way, based on adjustment and rectification.

While formulating a new development strategy, foreign trade policies must also be suitably adjusted. With the foreign trade contract system presently in effect, local and enterprise powers have been broadened and foreign trade has been reinvigorated. But this has also produced problems such as "divisive" tendencies, mutual slaughter, and too much weakening of central regulation and control. For this reason, central authorities should expand their power to control foreign trade, and in particular should bring the various local forces into line and implement a unified foreign trade policy, while at the same time encouraging domestic competition. However, the competition must have rules. The basic causes of commodity prices being forced up, followed by panic purchasing of export supplies domestically, as well as unaccounted for production costs, price cutting, and competitive marketing are that foreign trade units still are only responsible for profits, not for losses. We should adopt policies that must both encourage expansion of exports and spur foreign trade units to assume sole responsibility for both profits and losses.

It is especially necessary to stress the need to establish an international trade theory for China. China's reforms are an unprecedented undertaking, and in the early period of reform there is bound to be situation of "groping for stones to cross the river." But we cannot "grop for the stones" forever, and it is necessary to summarize experience in a timely manner, and actively think of a way to "build a bridge" to cross the river. This "bridge" is in fact China's theory of reform, including a theory of foreign trade reform. Some development economists already recognize that traditional international trade theory based on free trade is basically not suitable for the developing countries. While criticizing traditional theory, they are also establishing a new international trade theory for the developing countries. Some scholars have also proposed that protective trade and free trade should be integrated, and advocate implementation of a "dynamic comparative advantage theory." All of these ideas warrant linking China's actual situation with research.

#### Guangdong To Designate Special Zone for Taiwan Investment

OW1606124690 Beijing XINHUA in English  
0702 GMT 16 Jun 90

[Text] Guangzhou, June 16 (XINHUA)—Guangdong Province in south China is planning to designate a new zone specially for investment from Taiwan.

Such a plan has already been handed over to the State Council for approval, according Lin Junrui, deputy director of the Guangdong Provincial Commission of Foreign Economic Relations and Trade.

The province has taken various measures to attract more Taiwan investment in recent years.

By the end of May this year the province had more than 700 Taiwan-funded enterprises with a contracted volume of more than 900 million U.S. dollars. Already 500 of them have gone into production.

Lin estimated that more than 1,000 Taiwan businessmen will attend a foreign economic cooperation and trade fair in the Zhuhai Special Economic Zone at the end of June.

The province welcomes Taiwan investment, especially in the fields of household electrical appliances, electronics, umbrellas, plastic products, bicycles and motor car parts, as well as in the processing of agricultural and marine products.

The province also seeks technological cooperation with Taiwan in sea transportation, port construction and financial administration.

#### AGRICULTURE

##### Gansu Preferential Policy for Sugar Crops

90CE0226B Lanzhou GANSU RIBAO in Chinese  
26 Apr 90 p 1

[Article by Ma Shunlong (7456 7311 7893): "Encourage Peasants To Plant More Beets; Provincial Government Formulates Seven-Item Preferential Policy"]

[Text] On 25 April the provincial government convened an All-Province On-Site Beet Production Working Meeting at Wuwei. The provincial government also formulated a seven-item preferential policy directed at the current situation in beet production this year to mobilize the initiative of the broad peasants to plant more beets.

The province's four sugar plants at Wuwei, Zhangye, Jiuquan, and Jinta have an annual sugar production capacity of 100 thousand tons. The annual decline in the output of beets for a variety of reasons since 1988 has underutilized the capacity of these sugar plants. This has led to a slide in enterprise economic benefits. It also has had an impact on the income of peasants, local areas and the province. According to mid-April statistics of relevant departments, the province has not fulfilled its beet planting plans. Thus, the provincial government convened this on-site working meeting of leaders from beet production districts and cities to resolve the problems in beet production. On the basis of the situations reported by various localities, the provincial government has formulated seven preferential policies: 1) Substituting vegetables for grain: that is, accepting 40 kilograms of beets sold by a peasant household as equivalent of one kilogram of grain. 2) The province will provide some funds to support expanded production of beets. The province also will provide a subsidy of 30 thousand yuan per well to all who open waste land for planting beets and must dig wells. 3) Linking sugar and fertilizer. They

increased the original supply of five kilograms of fertilizer per ton of beets sold to 10 kilograms. 4) Sugar plant production in excess of the provincial norms will be divided between the province and the enterprise at a 3:7 ratio. 5) Provincial commercial departments will have first claim to purchase sugar retained by the enterprise. If they cannot market it, then the enterprise can sell it to other provinces with the approval of relevant departments. 6) Oil required for beet production will be increased appropriately above last year's base as needed by actual beet production. 7) Ground film needed for planting beets will be supplied. Funds set aside in advance by the sugar plants will cover the cost. Peasant households will receive [the funds] first. If sugar plants do not have the funds they can request a loan from the province.

After the provincial government made these seven preferential policies public, district and city leaders said that they would immediately relay them to peasant households. They also will mobilize them to plant more and better varieties of beets and strive this year to reach more than 260 thousand mu planted in beets to ensure sugar cane output of over 600 thousand tons.

Provincial Governor Jia Zhijie [6328 1807 2638] chaired the meeting and gave a talk. He said that the preferential policies on beet production formulated in the past are unchanged. The province guarantees the preferential policies formulated this year. They demand that local areas, cities and counties guarantee the beet planting plans; agricultural technology departments should guarantee technological support; supply and market departments should guarantee production resources support; sugar plants should guarantee purchases and establish purchasing measures early. In sum, all areas should get together to stress beet production in all possible ways and make a contribution to stabilizing the market and stabilizing society.

#### **Yunnan Pork Sales Decline**

90CE0226A Kunming YUNNAN RIBAO in Chinese  
27 Apr 90 p 1

[Article by Zhang Wenge (1728 2429 2047) and Zhang Rui (1728 6904): "Self-Sufficiency in Pork Just Around the Corner; Weak Sales Cause Concern"]

[Text] Not long ago the issue of pork supply became a "worry" of party and government leaders and the "meat shortage" worried many urban residents. Now the situation has changed considerably. Comrades of the provincial livestock departments say that this year our province can look forward to realizing self-sufficiency in meat. Yet, the other aspect of thriving hog production is that consumption is declining, the market is weak and pork stockpiles are increasing. Will this check the hard-earned impetus of live pig expansion? It is very disturbing.

Our province's hog production has been through several reversals. Today we bid farewell to yesterday when we

ate large quantities of "imported meat." All levels throughout the province made enormous efforts to reach this day of self-sufficiency in food. First, in the past few years the province, local areas and counties drafted a series of preferential policies supporting the development of the livestock industry. The provincial government annually provided 125 million kilograms of fodder at fixed contract prices for the purchase of big pigs. They rewarded households that sold many commodity pigs, and made annual appropriations to be used for construction of a diverse commodity base service system and subsidized management departments to invigorate circulation. At the same time, livestock departments at all levels actively promoted contracts using science and technology to develop the livestock industry vigorously. Commercial circulation departments sacrificed their own interests to promote developing the province's hog production. They lost more money dealing in meat from this province and less money dealing in meat from other provinces. They selected a management policy of buying more, selling more, and stimulating hog production in Yunnan, and made the proper contribution to our province's hog development. Through hard work, our province's hog production turned over a new leaf. In 1989 Yunnan removed over 8.2 million fat pigs from stock, gross output of pork was 645,700 tons, and only 11,900 tons of pork were transferred in, a 50 percent decrease from 1988 and an 80 percent decrease from 1987. Yunnan still had nearly 20 thousand tons of frozen meat at the end of the year; this indicates that Yunnan realized basic self-sufficiency in meat last year.

Will the hard-earned momentum in hog production be here today and gone tomorrow? Livestock departments have some views on this. They feel that there are many unstable elements in our province's development of a commodity economy. However, the growth in hog production has continued for 11 years and at a rate in excess of 5 percent. This rate is higher than the population growth rate. The province has also built a fledgling livestock commodity base. The policies for these bases are comprehensive, the measures are well grounded, and key and specialized livestock industry households focused on commodity production have emerged on a provincial scale. We are certain to realize self-sufficiency in meat as long as existing local policies supporting the livestock industry do not change, investment in building commodity livestock bases and promoting science and technology increases, and our province continues to have sustained growth in live pig production period of time.

This encouraging situation in hog production has encountered a weak consumer market. First is the increase in those areas of the province that are self-sufficient in meat. In the previous two years, nine prefectures in Yunnan brought in pork. This year, except for Kunming, in all areas, supply met demand and the number of market areas clearly diminished. Second, sales of pork declined monthly in the consumption markets like Kunming beginning in the fourth quarter of last year. By January and February of this year pork sales

by food companies in two urban regions had declined 17 percent over the same period last year. Due to the decline in consumption, the live pigs not eaten in January and February were converted into 2,600 tons of frozen pork. With the amelioration of the supply contradiction, consumers became picky and preferred to eat fresh pork rather than frozen pork, which increased the pork reserves. Some regions had to adopt such methods as stopping or slowing down or limiting purchases to keep fat pigs from chulan. This will restrict growth of hog production. Commercial circulation departments have adopted measures for this in their circulation links. Currently we also can see that consumption is an important link in production circulation. Per capita consumption of pork in our province now is about 20 kilograms per year. The national ideal pork consumption standard is 30 kilograms per capita per year. Therefore, our province's current pork self-sufficiency and consumption are only below the self-sufficiency and consumption level and thus we should correctly guide people's proper consumption.

#### **Shanxi's Modified Oil Purchase, Sale Policy Explained**

90CE0225A Taiyuan SHANXI RIBAO in Chinese  
30 Apr 90 p 1

[Article: "Provincial Government Decides To Adjust the Oil Purchase and Sale Policy"]

[Text] This reporter has learned at the provincial working conference on grain which ended 29 April that Shanxi Province will readjust its oil purchase and sale policy this year.

In view of the Ministry of Commerce's request with regard to parity price oil purchase and sale this year and the fact that Shanxi has a shortage of parity price oil, the provincial government has decided to make appropriate adjustments of the oil purchase and sale policy: 1) Beginning this year, cottonseed (oil) in the cotton-producing counties will be put under a purchase order plan. The purchase order is fixed at 25 kilos for each mu of cotton field, and grain departments are in charge of unified purchases. 2) Oil crop production-base counties will receive a subsidy when they transfer out oil. For every 10,000 kilos of oil shipped out, the prefectural or city government receiving the oil will pay 4,000 yuan to support the production-base counties. The money will be earmarked as a special fund for special use under the account of the county that transferred out the oil and will be used to finance oil-crop production. 3) 15 million kilos of oil will be pressed from sunflower seeds; any loss in the venture will be subsidized by the government. 4) The sale of parity price oil will be under tight control.

#### **Yunnan Grain Area**

40060051E Kunming YUNNAN RIBAO in Chinese  
16 May 90 p 1

[Summary] The spring grain area in Yunnan Province exceeds 15,430,000 mu, an increase of more than 750,000 mu over 1989.

#### **Yunnan Sugar Output**

40060051D Kunming YUNNAN RIBAO in Chinese  
29 May 90 p 1

[Summary] From December 1989 to the end of April 1990, Yunnan Province produced 496,000 tons of sugar. Estimated output for the pressing season is 505,000 tons, an increase of 41,000 tons over the previous pressing season.

#### **Hunan Cultivated Area**

40060052A Changsha HUNAN RIBAO in Chinese  
22 May 90 p 3

[Summary] At present, the cultivated land area in Hunan Province is 49,890 million mu; the noncultivated area is 267,800 million mu.

#### **Hubei Cotton Area**

40060051F Wuhan HUBEI RIBAO in Chinese  
5 Jun 90 p 1

[Summary] As of 31 May, the cotton area in Hubei Province totaled 6.5 million mu.

#### **Sichuan Rape Area**

40060051C Beijing ZHONGGUO TONGJI XINXIBAO in Chinese 11 Jun 90 p 1

[Summary] The area sown to rape in Sichuan Province is 5,955 million mu, the per mu yield is 101.5 kilograms, and gross output will reach 605,000 tons, increases of 5.1 percent, 7.9 percent, and 13.6 percent respectively over 1989.

#### **May Imports of Cereals, Food, Oils**

HK2106113390 Beijing CEI Database in English  
21 Jun 90

[Text] Beijing (CEI)—Following is a list showing China's imports of cereals, oils and food in May 1990, released by the General Administration of Customs:

Item	Unit	May 1990	May 1989
Cereals	ton	1,715,940	1,530,765
Wheat	ton	1,579,598	1,265,379
Soybean	ton	69	56
Sugar	ton	239,648	249,701
Animal Oils And Fats	ton	3,966	14,747
Edible Oil	ton	88,018	66,776
Other Oils	ton	69,316	90,970

**National Watermelon Area**

40060052B Beijing JINGJI RIBAO in Chinese 11 Jun 90 p 1

[Summary] According to statistics from 15 major watermelon producing regions, in 1990 the watermelon area is 7.332 million mu, an eight percent decrease from 1989.

All regions have reduced the watermelon area to ensure the grain and cotton area, and some areas have levied a speciality production tax, reducing peasant enthusiasm to grow watermelon. Due to increased transportation costs and taxes, watermelon prices will increase about 10 percent over 1989.

**Review of 10 Years of Development in Sociology**

90ON0446A Beijing ZHONGGUO SHEHUI KEXUE [CHINESE SOCIAL SERVICES] in Chinese No 1, 10 Jan 90 pp 55-66

[Article by Han Mingmo (7281 2494 6206); Shen Xi (3088 3556), responsible editor: "The Reestablishment, Exploration, and Breakthrough of Sociology"]

[Text] *Editor's note: This article is a brief review of the course and achievements of the resumption of Chinese sociology in the past 10 years. It expounds on the contributions of the "research on small towns and urban and rural development," which was led by Professor Fei Xiaotong [6316 1321 6639], in the socialist construction of China and the building of sociological discipline. This article holds that the stage result of this research—the theory of the development model of small towns and township industries—has explored a feasible Chinese-style socialist path for China's modernization and the integration of urban and rural areas. This article also points out that during this research new breakthroughs were made in the research method of sociology and methodology through a large amount of long-term investigation and practice.*

*The author Han Mingmo was born in 1918. He is a professor at the sociology department of the Beijing University. The content of this article was discussed and decided jointly by the author and Professor Fei Xiaotong. Professor Fei Xiaotong also went over and approved the final draft.*

**I. The Revival of Sociology**

China's sociology has taken a rough and bumpy road in the past several decades. In 1952 all departments of sociology were closed down in universities. Sociology teaching and research activities were suspended for more than 20 years. After the Third Plenary Session of the 11th CPC Central Committee in December 1978, the party's line, principles, and policies had drastic changes and all fronts made great achievements in the way of setting to rights things that had been thrown into disorder. In his speech on "adhering to the four basic principles," Comrade Deng Xiaoping said, "For many years in the past we ignored research on political science, law, sociology, and world politics. Now we need to hurry to make up what we missed." This was the first sound, calling for the resumption of sociology, which was later admired by many people.

In line with Comrade Deng Xiaoping's suggestion and entrusted by the Planning Liaison Bureau of the Chinese Academy of Social Sciences, Professor Fei Xiaotong called several symposiums of scholars who used to engage in sociology in Beijing to deliberate on the resumption of sociology. After that, some 60 people, including related personnel in Beijing and other provinces and municipalities and people interested in supporting sociological research, were invited to a symposium from 15 to 18 March 1979. At the symposium, the

case on sociology was redressed. Since then sociology teaching and research activities have been resumed.

The symposium in March 1979 was a point of departure and a sign for the resumption of sociology in New China. Resuming does not mean bringing back the old. It means resuming sociology research and teaching work and restoring the proper status of sociology in the social sciences. It is the revival of sociology. At this symposium, the "Chinese Sociology Research Society" was founded, which later changed to the "Chinese Society of Sociology."

**II. Difficulties in Founding**

Rebuilding sociology was a difficult creating process. The sociology of old China did not leave us much wealth. Although China's sociology originated from the era of modernization movement of Kang Youwei, Liang Qichao, and Yan Fu at the end of Qing dynasty, the real founding of China's own sociology did not begin until the 1920's. If we consider 10 years as a generation of personnel, there had been only four generations before sociology was eliminated in the 1950's. By 1979 when sociology began to come back, there were only a few more than a dozen people left in the first and second generations, and they were all over 80 years old. Most people of the third and fourth generations switched to other fields; only 20 to 30 people were left and they were all at least 60 years old. They went through the War of Resistance Against Japan and drifted from place to place. Although they did not stop working in their field, their ability had been weakened substantially. Resuming sociology on the basis of these four generations was extremely difficult.

In view of the urgent need, we had to adopt some emergency measures. First of all, we needed people. Establishing some research organs and opening sociology courses was important, but who would come to do the research and teaching was even more important. For this, the Chinese Society of Sociology and other local sociology societies sponsored a few sessions of sociology courses, invited Chinese and foreign scholars to give lectures, and absorbed young and middle-aged people who were interested in sociology from other fields to take short-term training in sociology, and used it to bring up some backbone forces to rebuild sociology. Since 1982, some universities began to add sociology departments and recruit youths to train sociologists according to normal standards. As of today, 12 universities have established sociology departments or disciplines which have 900 undergraduate students and 160 graduate students. According to incomplete statistics, currently there are about 1,200 sociology specialists on educational and scientific research fronts. This is the backbone of the development of the science of sociology.

Due to a long period of isolation, when sociology was first resumed, Chinese scholars were unfamiliar with the level reached by the development of sociology abroad. For this reason, it is very necessary to make up this

missed lesson in a well-planned manner. However, we cannot copy all achievements of foreign sociological development in the past few decades. We should have our own path and establish Chinese-style socialist sociology in light of our actual conditions. Chinese-style sociology means that China's sociology must be guided by Marxism and focus on understanding and verifying the characteristics of socialist China and solving China's social problems. China's sociological study should selectively absorb the strong points of foreign sociological theories and methods, but the main target of China's sociological study is China and the place of China's sociology is in China. Studying China's actual conditions and characteristics to make efforts in and contributions to China's socialist modernization is precisely what we have done in the past decade or so.

When the department of sociology was first founded in universities, we lacked both teachers and teaching materials. Under the leadership and guidance of Professor Fei Xiaotong, a group of teachers began to gather in 1980 and they compiled an elementary textbook, *An Introduction to Sociology*, containing the basic knowledge of sociology. The theoretical level of this book is not very high, but it is a promising beginning. In the preface of this book, Professor Fei Xiaotong said that he hopes that we can fully implement the principle of "letting a hundred flowers blossom" during the initial period of sociology's founding and urges that publishing houses not stick to one pattern and publish more books like *An Introduction to Sociology*. After several years of efforts, there are now about 15 to 16 similar books. About 450 various kinds of translated books on sociology have also been published. This shows that the period of hardship following the founding of sociology departments is coming to an end and that we have laid a solid foundation for future advancement and development.

### III. Our Work

Sociology was revived at the time that China's urban and rural economic structural reform began. It is possible that we might score great academic achievements if we can seize this rare opportunity of drastic social changes to carry out conscientious investigation and research. Because of this, this time period is also a golden period most favorable to the flourishing and development of sociology. How to choose our research subjects in view of China's social development and changes during this flourishing age is the main direction of the development of Chinese sociology.

Here, we are not planning to review all aspects of sociological development in the past decade. Instead, we will make a brief review of research conducted under the leadership or guidance of Professor Fei Xiaotong.

What kind of changes have occurred in Chinese society since the reform and opening up? This is a research subject many scholars of sociology picked for themselves. We took this issue to rural areas first. We believed that understanding the kind of changes that had really

occurred in rural society was the beginning of understanding the development and changes of Chinese society as well as the key to understanding China's development and changes.

China is developing. China cannot follow the old path of development in capitalist countries. It should also try to avoid the predicament of some Third World countries whose societies and economies have stagnated for several decades. Our country is a socialist country. It is also a large country with a large population of poor quality, vast territory but little farmland, rich resources but little for each person, and a highly sophisticated ancient civilization but impoverished and backward. What road of development shall we take in view of these actual conditions?

The point of departure for our research was the micro-economic analysis of rural areas. This work originated, as everyone knows, from Fei Xiaotong's research in the 1930's under the title of *Jiangcun's Economy*. Jiangcun is a small village with about 360 households on the side of Lake Taihu. The objective of the survey at the time was to understand Chinese peasants' life, changes in their life, and the characteristics of Chinese rural society, and to explore the road of modernization in Chinese rural society. The conclusion drawn after the survey is that "there are too many people and not enough land, that industry and agriculture should supplement each other," and "developing rural industry is the only way to raise peasants' living standards." Based on previous surveys, we began our small-town study from Wujiang County of Jiangsu Province in the early 1980's. During the three years between 1982 and 1984, our small-towns study covered first the southern part of Jiangsu Province and then the northern and central parts. After 1984, we organized people to carry out investigations along two routes: One led to Fujian, Guangdong, and Guangxi Provinces via Zhejiang; the other went to northwest China through northeast China and Nei Mongol to arrive at Gansu and Qinghai Provinces. In addition, we also organized investigations and studies of Henan, Hunan, and Shaanxi Provinces in central China. This study focusing on small towns has now expanded to a study in the development of urban, rural, border, and minority areas. It has also formed an investigation and research network covering more than 10 provinces, municipalities, and regions.

Then, what kind of stage results have we achieved and what kind of initial conclusions have we reached in this study?

#### 1. Small towns constitute a big issue.

The study of small towns was proposed in the practice of economic structural reforms in China's urban and rural areas. The first conclusion we reached in the past few years through a large amount of on-site investigation is that the development of small towns is a big issue in the development of China's socialist construction. This is because small towns are the economic and cultural

centers of rural society. China's rural modernization must start with the development of small towns. The study of small towns has not only opened up a path for founding a science of Chinese-style socialist sociology, but has also untied a knot and solved a problem with regard to accelerating rural modernization and development in accordance with China's actual conditions. This knot or problem is how to find a way that suits social development to increase the living standards of millions upon millions of peasants who have been freed from the binding of land in the course of China's modernization, especially agricultural modernization. The seriousness and uniqueness of this issue is very uncommon in other countries. The conclusion of the small-town study tells us that some of these millions of peasants will be absorbed through the deepening and broadening of reform and some through the development of large and medium-sized cities. But a considerable number of them still need to rely on the development of small towns to find a way out. This is the profound significance of the study of small towns.

## 2. The rising of township enterprises is the basic motive power for the development of small towns.

The truthfulness and feasibility of the conclusion reached by the Jiangcun survey in the 1930's and the Yunnan survey in the 1940's were verified again in southern Jiangsu in the 1980's. Facts have proved that township enterprises indeed represent new productive forces in rural areas and are a very active factor in the rural economy. Of course, agriculture is the basis of the national economy. But, in order to make a success of this basis, looking for strength within agriculture alone is not enough. To enable agriculture to play the role of sustained and steady basis in the national economy, we need to achieve agricultural modernization. Agricultural modernization is to change our agriculture from one that is passed on from the past and based on manual labor and direct experience to one that is based on modern science and technology and equipped with modern machinery. It is also to widely utilize the fruits of modern science and modern machinery and equipment in each and every department of agricultural production, the entire process of production, and agricultural management. From this we can understand that the entire process of fulfilling agricultural modernization is by no means only a process of improving agricultural technology. It must be consistent with the entire process of rural modernization and social development in rural areas. This includes transferring most of the surplus rural labor to nonagricultural labor departments and township enterprises in rural areas. It is thus clear that the development of township enterprises is closely related to the development of small towns. We may say that township enterprises are an inevitable product of history. The regional and urban and rural distributions of Chinese population are very uneven. Developing small towns and township enterprises can turn small towns into the reservoir of population between urban and rural areas. To change jobs, millions upon millions of peasants who have been liberated from agriculture can only place their hope on small

towns because the basis of the development of small towns is township enterprises.

If the development of small towns and the rising of township enterprises are not interpreted in a comprehensive manner from the angle of social development, it is very likely to draw criticisms from people saying that it is a waste of production and investment and that it destroys ecological equilibrium. They fail to see that the rising of township enterprises and the development of small towns are extremely important and fundamental social changes in today's socialist China. They broke the old path of capitalist socioeconomic development in the past 300 years—the old path where industry and population were concentrated in large cities—and created a new experience for the modernization of many Third World countries since the end of World War II. They opened up a new path of Chinese-style rural industrialization. Unlike capitalist industrialization and urbanization which were carried out at the cost of peasants and agricultural production, when we develop small towns and township enterprises, we will make industry and agriculture supplement each other, develop urban and rural areas in a coordinated manner, and follow a new path of rural modernization. The profound meaning of this new path has far outweighed the objective of enlivening the economy. In fact it has become an indispensable content of the overall, coordinated social development of China.

Small towns and township enterprises are new things, so they cannot avoid having some imperfections and many contradictions. Just as we do with other new socialist things, we must be able to properly support and guide them to make them grow still stronger. Currently, township enterprises are being readjusted according to the guidelines of the Fourth Plenary Session of the 11th CPC Central Committee, and those enterprises that consume a great deal of energy and that compete with large industries for raw materials should be closed down. But readjustment is to better development. Those township enterprises which can accelerate the development of agriculture, especially developmental agriculture, increase energy resources, do not compete with large industries for raw materials, and can facilitate the development of urban and rural economy will still be developed.

## 3. The rural economy must be developed in accordance with local conditions.

The township enterprise is also referred to as the grassroots industry, meaning that it grew out of people who farm the land in rural areas and that its roots are deep in the soil. Peasants can make room for machines in their houses, their own children can provide free labor, they do not need a penny of investment from the state—all this has given unlimited vitality to the grassroots industry. In the past few years, China's small-town economy had different development patterns. The word pattern refers to a special type of economic development in a given area under given historical conditions. It is not

the same as "model" and "sample." Instead, it indicates the characteristics of socioeconomic development in a certain area and the traits distinguishing this area from other areas. For instance, southern Jiangsu and Wenzhou are two areas with similar and different historical conditions, but they have taken two different paths in social and economic development. Sociologists have the responsibility to make a concrete analysis of differences between these two paths and of the causes for such differences. During the survey and study of coastal provinces, we made an initial review and came up with three patterns of regional rural development. They are the southern Jiangsu, Wenzhou, and Zhujiang patterns. What is the southern Jiangsu pattern? It refers to an economic pattern of township enterprises of community groups sprung up in the rural areas of southern Jiangsu centering on Suzhou and Wuxi. It uses original commune- and brigade-run enterprises as the basis, carries on the past tradition of "supplementing agriculture with industry," and relies on the technological force of technicians who have returned to rural areas from large and medium-sized cities. The Wenzhou pattern refers to an economic pattern of township enterprises of individuals or collectives that sprang up in the rural areas of Zhejiang centering on Wenzhou. It uses the cottage industry as the basis, develops the past tradition of engaging in domestic and foreign transactions in small commodities, and takes advantage of the opportunities created by an open market and long-distance transport for profits. The Zhujiang pattern refers to an economic model of various new-style township enterprises in the rural areas of the Zhujiang Delta. It uses special economic zones as the basis, develops the past tradition of closely integrating villages of returned Overseas Chinese with Overseas Chinese, and takes advantage of the opportunity of the spreading of Hong Kong's economy. These three patterns each have their own development histories and their own characteristics which continue to develop and change. Because of this, whichever area draws on the development experience of these patterns must consider "suiting measures to local conditions" and pay attention to their dynamic development situation of "adapting to changing conditions and seizing the opportune moment."

#### 4. Small towns are the catalyst in the development of relations between urban and rural areas.

Past experience tells us that a great defect in China's socioeconomic development is the separation of urban areas from rural areas. In the past due to the great gap between urban and rural areas and the emphasis on urban areas in the distribution of productive factors and economic interests, agricultural production stagnated and rural development was slow, thus forcing us to relearn the truth that "agriculture is the basis of the national economy."

A somewhat controversial international authoritative theory explaining the phenomenon of urban and rural separation is what we called the theory of "dual economic model." According to this theory, we may say that

two completely different economic regions exist in China and many Third World countries. One is developed areas where modernization, industrialization, and urbanization are "integrated as one"; the other is poverty-stricken and backward rural area. Unequal economic relations exist in these two regions and there is a great difference in their economic growth. Analyzing and evaluating the theory of a dual economic development model is not a task of this article, but we may point out that the development of small towns is precisely the new way to overcome the dual economy and pursue the single economy. Currently, theoretical circles have used many concepts to describe the role of small towns in urban and rural development. For instance, small towns are the link, joint, bridge, and connecting point for urban and rural integration. These concepts have basically all described the intermediary role of small towns in urban and rural relations. With regard to the development of urban and rural relations, some suggest "merging urban and rural areas"; others suggest "integrating urban and rural areas." But their general intention is to explain that, as the medium of urban and rural areas, small towns can play an active role of catalyst in a new type of relations between urban and rural areas in regard to cooperation, coordinated development, and mutual promotion and prosperity. China's rural areas are now changing from a closed and semiclosed, and a self-sufficient and semi-self-sufficient socioeconomic structure to an open, commodity-oriented, socioeconomic structure. And small towns are an important part of the realignment of socioeconomic structures of urban and rural areas. They are the catalyst of the close ties in urban and rural relations.

#### 5. The development of small towns is affecting peasants' thinking and family life.

Small towns and township enterprises have freed a large number of peasants from the restriction of land. This means not only changing from cultivating the land to manufacturing commodities but also eventually liberating their minds and changing their traditional lifestyle. It is still very difficult for us to tell exactly what kind of result this will bring. But such a change will gradually improve peasants' quality, accelerate the progress of rural modernization, and, at the same time, avoid following the old path of the West where urban and rural areas are pitted against each other. Such change is more significant than simple economic growth. Changes in the thinking, real life, and lifestyle of most people in rural areas deserve to be called a Chinese-style socialist revolution. Those places that change the fastest are the targets which we are most interested in following.

Generally speaking, changes in peasants' thinking and lifestyle are preconditioned by the development of social productive forces and the change in related social systems. In merely a few years, peasants who used to try to become self-sufficient marched in strides onto the market, showing that the concept of commodity had become stronger in their minds. The demands of commercial transactions and the factory working system are

changing their lifestyle. The enjoyment of urban-style cultural life and the effective utilization of leisure time in small towns are attracting peasants to gradually gather in cities, towns, and factories, and the living circle is being gradually reduced. To accompany this, family structure is also changing. Small households which are centered on a husband and a wife with small children are being maintained steadily; multinucleus backbone households with overlapping generations fluctuate frequently in terms of ratio. In farms operated as a unit of family, older people are gradually turning over family authority and decisionmaking power to younger people because many younger people have the knowledge and ability and can take care of modernized, commodity management activities while older people withdraw to become ordinary laborers in the family.

#### 6. The development of minority nationality areas depends on how to develop national characteristics.

Beginning in 1984 the study of the development of small towns and urban and rural areas was expanded to cover minority nationality areas in northeast and northwest China. If eastern and western regions cannot develop at the same speed, the gap between them will inevitably be enlarged. This would adversely affect the four modernizations of China.

Many minority nationalities live in western China which includes China's five major national autonomous regions. To seek socioeconomic development in such an area, we must consider the important factor of nationality. So the development of minority areas must first of all be the development of minority nationalities. After years of investigation and study, we think that the key to the development of minority nationality is how to develop national characteristics. Every nationality has its own longstanding history and has created and developed its own special kind of social culture. We should be good at discovering and recognizing such characteristics and special conditions of all nationalities. On this basis, we should encourage all nationalities to bring about their own social and economic development through their conscious efforts. In the course of development, it is necessary and indispensable for the people of all nationalities to help one another. But helping is not replacing. Nor can help be forced on others.

Although minority areas have vast pastures and rich mineral resources, their social and economic development has been very slow for many years. About two-thirds of the nation's 144 impoverished counties are in minority areas. The natural environment in these areas is deteriorating, ecological environment is imbalanced, and production is declining. Although the party and the government have done a great deal of work over the years, many facilities have not yet formed a complete system. Experiments carried out over a small area have been effective, but they cannot produce concrete results over a large area.

The development of minority areas may be considered from three aspects: First of all, seeing from the angle of "coordinating all the activities of the nation like pieces in a chess game" and the development of national economic construction as a whole, we should spend our time and efforts on the mutual aid of eastern and western areas and the narrowing of the gaps between the eastern and the western areas and between different nationalities. We have proposed the principle of "having the eastern area support the western area and the western area aid the eastern area to bring about mutual benefits and common prosperity." That is, the funds and technology of eastern area may be used to develop the resources of the western area and the raw materials and energy resources of the western area may be used to meet the urgent needs of the eastern area. Second, proceeding from the characteristics of minority nationalities, we should use their traditional national advantages to bring about development. A prominent example is the current proposal on "the multinational development zone on the upper reaches of the Huang He." This development zone is located in the middle of four national autonomous regions—Tibet, Xinjiang, Nei Mongol, and Ningxia. Populated mainly by Hui nationality, this zone connects the vast pastoral area and the agricultural zone of the central plains. With the tradition and habit of engaging in trade, the people of Hui nationality can use their experience and ability in this field to establish economic links between agricultural and pastoral areas. The drop in the water level in the upper reaches of the Huang He may be used to build a series of hydropower stations. The energy they provide could be used to develop mineral production on both sides of the Huang He and establish corresponding industries. This not only can form a rich agriculture-animal husbandry trade corridor on the upper reaches of the Huang He, but also can substantially accelerate the modernization of the Qinghai-Tibet plateau. Third, we should give consideration to the coordinated development of different communities in minority areas. In the past when we established industries in these areas, we only built isolated plants which had very little to do with the people around them. We may call such industries "isolated-island industries." Take the existing Baotou Iron and Steel Complex, for instance. Its material conditions may still be the same as in the 1950's, but its human conditions are different. For instance, its population alone has already doubled and redoubled. It has become a community of tens of thousands of people. However, this community is not merged with local society. It has very little influence on its neighbors. Consequently, this has caused human ecological imbalance. The findings of our investigations show that both human and natural ecological imbalances deserve our attention in minority areas. Sociology can make contributions to solving the problem of human ecological imbalance.

#### IV. New Probe of Sociological Method and Methodology

In the 1930's and the 1940's, the sociological circle began to try new survey and research methods. This is the

so-called sociological survey method or community study method. Before this, the sociological circle talked only about social survey not sociological survey. Sociological survey is the deepening and development of social survey. It may also be called a major reform of social survey. The prominent shortcomings of previous social surveys include the lack of definite methodology as guidance, unclear objectives of surveys, and superficial findings of surveys. This is because we used to emphasize that before the survey we need to ensure that our mind is like "a blank piece of paper," that we "do not have preconceived ideas," and that we "do not add any personal feelings or subjective fantasies." These are correct in principle, but it does not mean that investigators cannot be guided by a certain ideology. Humans always have thoughts. People always have some kind of opinion on the reality of society. Because of this, it is virtually impossible for anyone to avoid the guidance of his thinking and views while conducting a survey. This is true whether one is designing the survey form, carrying out the actual survey, sorting out data, or interpreting or organizing data into articles.

Sociological survey is also referred to as community study or community analysis. This method did not come into being all of a sudden. Its ideological and theoretical sources are as follows: 1) Traditional ideas and methods of social survey; 2) the achievements of cultural anthropology, namely the series of survey and research methods developed by the school of cultural functionalism from anthropologist Morgan to Malinowski, Brown, R. Thurnwald, and Mead; 3) the achievements of human ecology such as the book *Ancient Cities* by French sociological historian De-gu-lang-xu [1795 0657 2597 6079] and the book *Cities* by Park of the School of Chicago; 4) prevalent area survey and urban planning movements; and 5) the rising of cultural sociology. Cultural sociology was started by American sociologist Ao-ge-peng [1159 2706 2590] and carried on by Linde and his wife, whose famous work *Middle Town* is a noted book on community study. After merging, these five ideologies became the basis for the sociological methodology of community survey and study. It is thus clear that community analysis is using general sociological theory, the viewpoint of cultural sociology, and the investigation and research method of cultural anthropologist functionalism to carry out in-depth analysis and study of the natures and problems of a society as a whole in a restricted area. Sociological survey emphasizes the objective of the academic activities of sociological professionals. It uses the examination of some facts to prove a set of sociological theories or trial hypotheses. In the 1930's and the 1940's, sociological survey made some preliminary achievements and published such books as *Farmland of Lu Village* and *The Handicraft Industry of Yi Village*. But, due to the limitation of human and material resources and the restriction of the method of thinking and understanding at the time, the achievements were only preliminary.

In the 10 years following the resumption of sociology, in light of the needs of national modernization, sociological

survey and study methods have made unprecedented headway and fresh developments. They are roughly as follows:

1. Theoretical workers are integrated with field workers.

Before the founding of the PRC, sociologists had a grand wish, hoping that they could carry out an on-the-spot study of modern communities in China. Their method was to divide China into several large zones, choose the most representative area of each zone to carry out thorough investigations to find out the functions, course, and development tendency of communities, and compare communities in these areas to find out their characteristics and factors in their interrelations. This was the proposal of the late sociologists Wu Wenzao [0702 2429 5679] and Chen Da [7115 6671] and the true wish of other sociologists. During that period, because of limited forces, this grand wish could not be fulfilled. But it is different now. Not only has this wish been fulfilled, it has also acquired unprecedented depth and achieved surprising results. Since 1982, we have used the rural areas of Wujiang County of Jiangsu Province as the basis and gradually gone to small towns, small-town communities, and medium-sized cities to carry out the survey and study of urban and rural development. In recent years, we divided China into east, central, and west, three different zones, used the Sociology Research Institute and Sociology Department of Beijing University as the center, and formed, jointly with about 20 units in 12 provinces, municipalities, and autonomous regions—Jiangsu, Beijing, Henan, Hunan, Hubei, Nei Monggol, Heilongjiang, Gansu, Xinjiang, Shandong, Shaanxi, and Yunnan—and comrades of the Sociology Institute of the Chinese Academy of Social Sciences, a "coordinated study group for the development of urban, rural, border, and minority nationality areas" to carry out on-the-spot investigation and research. The research work not only relied on some professional researchers but also on the integration of field workers who had contacts with the masses and actual experiences, policy researchers, and theoretical workers. The objective of the survey and study is merely to sum up the experience of the masses and pass it onto the hands of more people to facilitate and accelerate our four modernizations.

2. Grasping the right research subject is the key to successful survey and study.

Grasping the subject is to set the question and raise the issue. If what we grasped is not a scientific proposition, the entire research work will be meaningless. Setting the question means to clearly know what question we shall study and why. For instance, after initial investigations, we found out that Chifeng Prefecture had the problem of natural ecological imbalance, so we carried out further follow-up research on how to turn the contradiction between agriculture and animal husbandry into the coordination of agriculture and animal husbandry. For another instance, we raised the issue of human ecological imbalance in the Baotou area. So, if we followed the proper order and advance step by step, we would be able

to study in depth the correct road of development for Baotou. Setting the question is to establish hypotheses. A hypothesis is a kind of proposition and view, not a conclusion. We need to carry out repeated investigations and studies and use facts to prove whether this view is correct or incorrect. This is what we called sociological survey. To set a question we should first establish a hypothesis, which is the necessary step before sociological survey begins as well as one of the main characteristics of sociological survey method. This method was considered in the past but it was not as clear as it is now. Besides, it has been proved in practice to be completely correct and necessary. Whether or not a question has been conceived in one's mind is one of the major differences between social and sociological surveys. Whether the selection of the question is accurate, good, or crucial, depends on the quality of sociological survey workers. For instance, when we investigate a poor village, the general social survey requires only that we find out why this village is poor, whereas the sociological survey requires that we first establish a "hypothesis" for the cause of poverty based on preliminary understanding before we start the real survey. Whether the hypothesis can hit the target depends on the level of experience and professional expertise. This takes time to study and train.

### 3. Organizing forces, carrying out the division of work and cooperation, formulating detailed classification, and "dissecting a sparrow."

Today's surveys and studies are better than past ones. In the past, surveys and studies were generally carried out by individuals who worked alone, so they encountered more difficulties. But in recent years we have formed a contingent that can carry out the division of work, cooperation, collective discussions, and more comprehensive surveys and studies on a larger scale. This contingent includes not only theoretical and field workers of social and natural sciences, but also educational workers in universities and colleges. They can carry out broad, multidiscipline, multisystem, and multilevel exchanges and cooperation on the same research subject.

After we confirm the proposition, we use the method of formulating detailed classification and "dissecting a sparrow" to obtain, within a fairly short period of time, data which could not be obtained for a long time in the past. During the survey of small towns in Wujiang County, we laid out the research subjects of "classification, level, rise and fall, distribution, and development," and adopted the research methods of on-the-spot observation, "dissecting a sparrow," spreading over a whole area from one point, and proceeding from qualitative to quantitative analyses. To study small towns, we cannot proceed from general concepts. The first step should be to carry out concrete investigations of small towns. Based on this, we divided small towns we saw into five categories according to their nature: 1) Zhenze town is a rural economic center characterized by the distribution of farm and sideline products and manufactured goods.

2) Shengze town is characterized by specialized industries. 3) Songling town is centered on politics. 4) Tongli town is characterized by culture and consumption. 5) Pingwang town is a hub of communications and transportation. These five towns are all political, economic, and cultural centers of rural areas, but their individual characteristics are different. Such differences, however, are not isolated and absolute. In addition to these five classifications, we did not exclude the existence of other classifications. Then we divided small towns into three levels and five grades, according to the size of their functions and influence and their administrative status: The first level includes towns under the administration of counties, which can be subdivided into county-seat and noncounty-seat grades. The second level includes township-towns which can be subdivided into high and low grades. The third level includes village-towns. After they are placed in horizontal and vertical categories, we should conduct concrete analyses of these towns one by one and "dissect sparrows" according to their history of rise and fall and their geographical distribution. Only on this basis can we carry out comparisons and analyses.

Seizing the opportune moment for the above-mentioned new exploration and development of research method, we need to further expound the new progress and the new way of thinking regarding sociological methodology in the past few years.

#### 1. The thought of sociology centering on humans has become clearer.

The criterion for judging sociological studies should be whether or not they can interpret, judge, and develop man's social life and accelerate man's social progress. In sociological terms, the word man is not an isolated individual. It refers to men with social relations. They are social beings. Talking about men apart from social relations will lose the truthfulness of sociology. To establish Chinese-style sociology, we must go into the midst of Chinese society to understand people, get to know them, and acquire, through the understanding of people, a deeper understanding of society.

#### 2. Society is a whole, an entity, and a system.

Theoretically speaking, this is not a new proposition. Ever since French sociologist Durkheim, it has become the common understanding of sociologists. Functionalists in particular have approved this understanding. Society is greater than the sum total of individuals. Society is independent of individuals. The concept of whole is also the concept of system. When we consider a concrete society as a whole in our study, we need to consider the relations between various parts of the whole. System exists objectively. It is not made up by men. To study a system is to make the system work more in accordance with man's demands. The concepts of whole, entity, system, and function of sociology are the guiding principles of sociological investigation method.

#### 3. Using communities as concrete research fields.

No survey of social phenomena is a simple activity of thinking. It is an action. Such an action is eventually carried out in a community. This is because the concept of community is abstract, whereas a community is real. A community is for the social life of human beings. It constitutes an entire network for the social life and relations of human beings. Human activities and actions are real and always happen at a certain time and in a certain place, namely, in a certain community. Using the community as the basis of investigation is to consider human social life and relations as the targets of investigation. This is one of the most basic operating standards for community analysis, namely sociological survey and study method. No matter how good the principle and demand are, if we have no feasible standards for operations and practice, we will not be able to reach the objective of survey and study.

#### 4. Pattern and comparison.

To carry out a sociological investigation we should first find out the characteristics of people's lifestyle in a certain community, that is, cultural traits, then put forward a view of universal significance, that is, define the pattern, and then carry out comparisons. Cultural pattern is a traditional and effective investigation and research method of cultural anthropology. The culture of a community is a comprehensive whole. Only after we carry out in-depth investigation and research of community life and find a typical living pattern, can we carry out comparisons between communities. The reason cultural patterns can be compared is that between different cultures of different nations in human society, namely in their cultural structures, there are common links and historical ties as well as consistency in human lifestyles and behavior patterns. So, in a certain sense, sociologists also call cultural anthropology comparative sociology. During our current study of the issues of small towns and the development of rural, urban, border, and minority nationality areas, we expanded the theory of cultural pattern to study the social and economic development patterns of communities, thus developing the theory of cultural pattern and enabling the pattern and comparison method to be applied more practically and widely.

#### 5. The interaction of quality and quantity.

Quality and quantity are two inseparable aspects of one thing. During investigation, research, and analysis, if we can use different qualitative and quantitative targets to describe and prove the developments, changes, and rules of things, we can get the effect of having quality and quantity reflecting one another. Some people suspect that the analysis and comparison of types in sociological investigation are not as concrete and precise as the models obtained from statistical analysis. This question has been answered in the practice of sociological investigation in the past 10 years or so. When people mention models, types, and patterns, they usually refer to statistical models or, more precisely, samples. But a statistical model cannot adopt its meaning and nature from quantity alone. The meaning of a model exists only if the

model represents the social nature and value of a definite number of colonies. We are not against the value of quantitative analysis. We have been using the quantitative method to increase the accuracy of our arguments. During the study of small towns, we used questionnaires to carry out an investigation of nine counties. The investigation result has already been published. Its purpose is to adopt a comprehensive understanding of a given area by studying first a key point and then the whole area. The items included in our questionnaires were specially designed, after carrying out a great deal of qualitative work, to suit this area. Quantitative work can provide accurate data, but it should be carried out as a part of qualitative research.

The above five points of explanation on methodology are neither comprehensive nor profound. These few points are enough to show that sociological investigation and research have entered a more systematic and mature stage in terms of methodology.

#### V. Conclusion—New Theories Grow in the Soil of Social Practice

The focus of research of social sciences in China should be practical and theoretical issues arising in current socialist construction. To grow and develop, sociology must follow the path of integrating with social reality. The research on small towns and urban and rural development, led by Professor Fei Xiaotong, closely followed exactly this road. As for how in depth the research is and how effective the solution of a problem is, it depends on the degree of correctness of a theory and the degree of accuracy of its application. Judged from the road we took, we have realized the following few points:

1. China's sociology, which proceeded from China's national conditions and was bred and grown in Chinese soil, should be the one with most vitality and best future for development. In the field of literature and art, some people once raised a view holding that "the more Chinese, the more universal." During the 10 years of sociological progress, we seemed to have the same feeling and understanding. This shows that the more in depth our research of Chinese society is, the better we can grasp the essence of the issue of Chinese social development and the more accurate our conclusion is in explaining the orbit of social changes. In this way, our research results will reach not only domestic standards but also international and universal standards. Although the results of research on small towns and urban and rural development cannot yet reach such a high standard, they have attracted great attention from their international counterparts.

2. If there are indeed some achievements in the conclusions of our research, to be serious, they are not our contributions. They should be attributed to the labor results of tens of millions of peasants who worked for a long time, day and night. Township enterprises, small towns, the southern Jiangsu model, and the Wenzhou model—all these are created by the broad masses of

peasants with collective strength and wisdom on their own road of development of production and living. Sociologists engaged in this research borrowed their labor results, took them as teachers, and conducted some theoretical analyses and reviews of their activities. Because of this, we dare say that these conclusions are not deduced from any books. They are our efforts for socialist construction and development and for the establishment of Chinese-style socialist sociology.

3. If our research is to make contributions to China's socialist construction, we must not merely set forth abstract principles that people do not know how to handle or how to apply. Because of this research, conclusions must be ones that can be publicized, practiced, and tested. Whether it is to investigate and study relevant issues or develop small towns or township enterprises in some area, sociology not only can provide a set of investigation and research methods but also a set of feasible implementation plans. Our sociology is theoretical as well as applied sociology. Serving the construction of Chinese-style socialism is the sacred mission of China's sociology.

#### Rise in University Enrollments Forecast

HK1206032590 Beijing CHINA DAILY in English  
11 Jun 90 p 3

[By staff reporter Zhang Lin]

[Text] The number of university and college students in China is set to increase this year, according to an official in charge of enrollment in schools of higher learning.

The 1,000-plus regular universities and colleges were scheduled to take on about 620,000 undergraduates and students on special courses this year, 20,000 more than last year's admissions, the official from the State Education Commission said at the weekend.

And a total of more than 2.46 million middle school graduates would compete for the 620,000 openings to enter universities by taking the National College Entrance Examinations set for July 7-9, the official added.

Together with this year's scheduled admission of more than 50,000 middle school graduates to the country's TV and correspondence colleges and schools, about 27.2 percent of middle school graduates could further their studies, nearly one percent up from last year.

And apart from applicants from high schools, China's institutes of higher education also take in students sent to them by employers.

It was expected, however, that enrollment numbers for self-paid college students would be down on last year, the official said.

Meanwhile, the State Education Commission has issued orders to check on the increasing blind enrollment of some higher learning institutions at the expense of quality training.

China's universities and colleges were expected to concentrate on improving school management, learning conditions and efficiency while expanding enrollment in a controlled way in the coming two or three years, the official said.

The official added that some programmes or specialities with poor conditions and low teaching efficiency would be asked to close or cut their enrollment.

Universities and colleges have also been urged to increase the number of students majoring in specialties badly needed by society.

Lessons should be learned from irrational establishment and over-enrollment in some specialties in recent years, the official said, adding that graduates from these programmes had encountered great difficulty in finding jobs.

**Li Jiulong at Labor-Day Film Reception**

*SK0706061490 Jinan DAZHONG RIBAO in Chinese  
30 Apr 90 p 1*

[Text] On the evening of 28 April, the Jinan Military Region held a firm reception to mark the "1 May" International Labor Day.

The reception was held in a jubilant atmosphere. Present at the reception were Lt. General Li Jiulong, commander of the Jinan Military Region; Lt. Gen. Song Qingwei, political commissar of the region; Rao Shoukun and Kong Shiquan, members of the Central Advisory Commission; Major General Zhang Shijian, deputy commander of the region; Lieutenant General Xu Chunyang, secretary of the discipline inspection commission of the region; Major General Jiang Futang, director of the political department of the region; Major General Yang Xizhen, deputy chief of staff of the region; Major General Zhang Zonglin, director of the logistics department; Lieutenant General Liu Huanqi, deputy commander of

the air force of the region; Major General Yang Xinglong, deputy secretary of the discipline inspection commission of the region; and leading comrades of the Shandong Provincial Military District.

Zuo Qi, Li Suiying, Zhang Zhi, and Zhang Feng, veteran comrades of the region, also attended the reception.

Present at the reception were representatives of model heroes were Pan Mingqi, head of a certain regiment of the air force and a special-grade pilot; Ji Wanju, deputy instructor of the first company of the signal battalion and an excellent operator; Meng Xianfeng, deputy chief nurse of the department of paediatrics of the general hospital of the region and who has been commended as an excellent nurse on six occasions; and Zhang Wei, deputy acting chief of the No. 15 company [7130] of the No. 4 Battalion [1129 7130] of the Xinyang Army Academy and a first-grade hero.

Films were shown at the reception.

## EAST REGION

**Jiangsu Commemorates Mao's Yanan Talks**

OW0606210690 Nanjing XINHUA RIBAO in Chinese  
23 May 90 pp 1, 4

[Text] Yesterday and the day before yesterday, to commemorate the 48th anniversary of the publication of Chairman Mao's "Talks at the Yanan Forum on Literature and Art," the Propaganda Department of the provincial party committee invited some comrades in Jiangsu's cultural and art circles who reside in Nanjing to hold a discussion to exchange experiences on studying Chairman Mao's "Talks" and "Deng Xiaoping on Literature and Art" and to make well-founded analyses and criticisms of various expressions of the bourgeois liberalization trend of thought in literary and art circles some time before. Sun Jiazheng, deputy secretary of the provincial party committee, was present at the discussion. He made an important speech on how to study more thoroughly Marxist theory on literature and art, how to uphold the Marxist viewpoint on literature and art, and how to develop a flourishing socialist literature and art.

Some comrades at the meeting said: After the turmoil and counterrevolutionary rebellion in Beijing broke out between spring and summer last year, we have again studied Chairman Mao's "Talks at the Yanan Forum on Literature and Art" and "Deng Xiaoping on Literature and Art" by integrating our study with the situation on the literary and art front in the past few years. We have felt in our hearts the cordial sentiment of "a return of the truth" and yearned for continuous study to understand the truth in an in-depth way. A comrade said: In the "Talks," Chairman Mao specifically pointed out: Literature and art should serve workers, peasants, and soldiers, that is to say, serve the largest mass of people, mold their temperament, and let them enjoy a sweet treat. However, today some of our literary men and artists are divorced from the era and reality. They are fond of following and imitating Western avant-garde and modernist literature and art and claim that "they are writing for people in the next century" and "for themselves to read." They concoct sex literature and the art of "fist and pillow", or vulgar literature and art. All this shows that the two orientations in literature and art [the two orientations refer to workers, peasants, and soldiers and the proletariat] and the "double hundred" policy have not been fully carried out among some literary and art workers. Quite a few comrades said with deep emotion: Literary and art workers must implement the party's line, principles, and policies on literature and art, shift their stand to the side of the party and the masses, make unremitting efforts to plunge into the fiery realities of life, and strengthen the flesh-and-blood ties with the masses to create fine literary and art works suited to the needs of the era. Some comrades at the meeting gave very good ideas on the "Value and Immediate Significance of Mao Zedong's Theory on Literature and Art," the "Relationship Between the Principal Melody and Diversification," "A Correct Attitude Towards the

National Cultural Heritage," "Social Responsibility of Literary and Art Workers," and other topics.

In his speech Comrade Sun Jiazheng first affirmed the necessity and importance of organizing comrades in cultural and art circles in Jiangsu to review seriously and study in a deep way Chairman Mao's "Talks at the Yanan Forum on Literature and Art," "Deng Xiaoping on Literature and Art," and Comrade Jiang Zemin's "4 May" speech. He also called for all comrades to continue to study them and use them to guide their own works and jobs.

He dealt with four issues: 1) It is necessary to earnestly study Marxist theory on literature and art and uphold its guiding role in literary and art. He said: The theory is a scientific conclusion reached on fundamental issues of literature and art by applying the Marxist world outlook and methodology and by studying and summing up experiences gained in the practice of literature and art. Marx and Engels made an initial contribution in this respect. In his "Talks" Comrade Mao Zedong, adhering to the Marxist stand, viewpoint, and method, scientifically and incisively expounded such essential and crucial questions as whom literature and art should serve and how they should serve people, thereby further developing the Marxist theory on literature and art and giving rise to a system of Marxist theory on literature and art with Chinese characteristics. This system has played a great role in advancing China's revolutionary literature and art in the past. Moreover, its basic principle is still true today; therefore, it is still an important fundamental theory for enriching socialist literature and art in the new period now and for some time to come. "Deng Xiaoping on Literature and Art" has enriched and developed Mao Zedong's thinking on literature and art. Comrade Jiang Zemin's "May 4th Speech" also plays an important role in guiding current literary and art work. Therefore, we must conscientiously study and thoroughly understand Chairman Mao's "Talks," "Deng Xiaoping on Literature and Art," and Comrade Jiang Zemin's speech, continue to criticize the tendency towards bourgeois liberalization thinking, clarify erroneous theories dished up by bourgeois liberalists, and uphold the dominant role of Marxist theory on literature and art in literary and art work. Marxist viewpoints on literature and art and the era, literature and art and people, literature and art and life, literature and art and politics, on inheriting national culture in a critical way, and on learning from foreign cultures in a critical way have been proven correct in practice and, therefore, should be upheld unwaveringly. Of course, we must uphold and develop the Marxist theory on literature and art. However, we must uphold it first, and then develop it correctly while upholding it. In the course of conscientiously studying Marxist theory on literature and art, all literary and art workers must uphold the principle that literature and art must serve the people and socialism. This principle must be made the fundamental criterion in guiding all of their work and must be firmly upheld. 2) It is necessary to correctly understand the era and to illustrate it in a better way. In

our province, intellectuals engaged in literature and art are a contingent trusted by the party and the people. Our problem is that we should have a correct understanding of the times, illustrate it in a still better way, and make positive efforts to fulfill our mission entrusted by history. This requires that we analyze the situation correctly and enrich literature and art by unifying our thinking, straightening out personal feelings, and heightening our spirit. A patriotic writer or artist who cherishes socialism should remain firm in his beliefs, respond to the call of the times, continually purify his mind while transforming his world outlook, and build and develop what is useful and discard what is not. Only thus can he secure a correct footing, have a high sense of duty and historic mission, and do his utmost to create outstanding literary and artistic work.

Literary and art workers should share weal and woe with the masses and always maintain close ties with them. This requirement for literary and art workers set by socialist literature and art is the most fundamental. Real life is the sole source of literary and artistic creation, but people constitute the major part of real life and are the makers of social history. Naturally, people constitute the major part of literary and artistic work; therefore, they play the dominant role. The value and vitality of literary and artistic work depends to a large degree on how much they reflect people's lives, wishes, and feelings. The more accurately literary and artistic works record people's lives and wishes, and the more profoundly they depict people's feelings, the higher their artistic value and the longer their artistic vitality will last. This has been verified by numerous facts in the history of literature and art in the past and at present and at home and abroad. To fulfill their historic mission and become genuine "engineers of the soul," literary and art workers must educate and enrich themselves among the masses. Only thus can they turn out works of high ideological, artistic, and national value that are liked by the people. 4) It is necessary to persist in implementing the "double hundred" policy to promote the sound development of socialist literature and art. The "double hundred" policy is a policy formulated by our party to develop science and art. To apply this policy in the field of literature and art is to enrich and develop socialist literature and art by consciously applying the law governing the development of art. Therefore, we should combine the orientation of serving the people and socialism with the "double hundred" policy. Serving the people and socialism is the orientation for the development of literature and art and is the essence of socialist literature and art and the prerequisite for enriching it, whereas the "double hundred" policy is the fundamental method by which to enrich literature and art. To implement the "double hundred" policy means to diversify and promote mainstream literary and art creations. Diversification of literary and artistic work is the direct embodiment of the "double hundred" policy, whereas mainstream work constitutes the core and soul of this policy. This is because, speaking from any angle, mainstream work should form the main part of socialist literature and art.

In a socialist era, we cannot speak of socialist literature and art if there are no representative works that truly reflect the essence of socialism. In fact, mainstream literary and artistic work which we advocate should be rich and varied. They are not the same thing as some people may think.

It should be pointed out that the dominant position of mainstream work, which we advocate, can only be realized by diversification of literary and artistic works. However, it is our aim to give prominence to and stress on mainstream work in the course of diversifying literary and artistic creation. I hope that all comrades aim high and have lofty ambitions and, under the guidance of Marxism-Leninism-Mao Zedong Thought, unify their thinking, clarify personal feelings, heighten their spirits, enrich literature and art, and contribute their wisdom and talent in creating outstanding works worthy of the times and the people.

The forum was presided over by Pan Zhenzhou, deputy director of the propaganda department of the provincial party committee. More than 70 comrades from provincial literary and art circles attended the forum.

#### **Shandong Document on Theoretical Training of Cadres**

*SK1006122290 Jinan DAZHONG RIBAO in Chinese  
6 May 90 p 1*

[Text] The Shandong Provincial CPC Committee recently issued a document on Marxist theoretical training of cadres, calling for efforts to establish and improve the leading cadre training system, and greatly intensify the Marxist theoretical education.

The provincial party committee stipulated: Party and government leading cadres at various levels who have been elected to assume their posts should undergo training at once at the party schools at the corresponding levels during their terms of office, and other leading cadres should undergo training at least once every five years at party schools at corresponding levels. In addition, leading cadres at and above the county level should devote some time every year to the study of basic Marxist theory organized by departments directly under the province, cities, and prefectures as a unit, or by counties, cities, and districts as a unit, and use the Marxist stand, viewpoints, and methods to study and discuss some major issues.

The provincial party committee urged: In carrying out the work related to cadres, party committees at various levels and their organization departments should conscientiously implement the principle of integrating training with use of cadres and regard how cadres attend the Marxist education and their theoretical accomplishment as a criterion to judge whether they are revolutionary. In the future, candidates to enter leading bodies at the prefectural or departmental level should in general, be under the training of the party school of the provincial party committee; and those to be recommended to enter

the leading bodies at the county level, should undergo the training of party schools of city and prefectural party committees. Meanwhile, cadre management departments at various levels should attach importance to and improve observation of cadres during the training period and record in their files the results of tests during the training period and opinions formed from the observation.

### **Establishment of Shandong Socialism Institute Planned**

*SK1706093390 Jinan Shandong Provincial Service in Mandarin 2200 GMT 14 Jun 90*

[Text] The Shandong Provincial CPC Committee recently decided to officially resume preparations for the establishment of the Shandong Provincial Institute of Socialism. This institute is a cadre school of the party with the character of the united front, and also a joint party school for provincial-level democratic parties and personages without party affiliation. Its major tasks are to improve the ideological level of the various democratic parties of our province, to enhance the theoretical understanding of Marxism-Leninism-Mao Zedong Thought of the democratic parties and the high- and middle-ranking personages without party affiliation, and to increase their ability to participate in and discuss the administration of state and government affairs. At present, preparation for establishing the institute is under way.

### **Zhejiang Cracks Down on Illegal Housing**

*OW0206045690 Hangzhou ZHEJIANG RIBAO in Chinese 2 May 90 p 1*

[By reporter Ye Zhangmu (0673 2874 2606)]

[Text] On the morning of 30 April, the provincial party committee and provincial government held a telephone conference with party committee and government leaders of various cities, prefectures, and counties across the province in charge of eliminating the "three violations" by party and government cadres in building private houses. Taking part in the conference were personnel of the office of various localities in charge of eliminating the "three violations" by party and government cadres in building private houses, as well as responsible persons of local discipline inspection commissions, departments of supervision, departments of urban planning and construction, and departments of land management. Xu Xingguan, member of the Standing Committee of the provincial party committee and vice governor, presided over the conference. At the conference, Chen Fawen, a member of the Standing Committee of the provincial party committee and secretary of the provincial Discipline Inspection Commission, relayed the guidelines from the recent meeting sponsored by the Central Discipline Inspection Commission on eliminating illegal construction of private houses by party and government cadres. In view of the actual situation in the

province, he also suggested ways to handle illegal construction of private houses by party and government cadres.

Chen Fawen said: The major guidelines of the recent meeting sponsored by the Central Discipline Inspection Commission on eliminating illegal construction of private houses by party and government cadres are as follows: First, it is necessary for the whole nation to act concertrately and take effective measures to stop party members and cadres from illegally building private houses and doing other housing-related malpractices in violation of law and discipline. Second, party committees and governments at all levels are urged to take charge and give top priority to the elimination of illegal construction of private houses by party and government cadres. Third, it is stressed that the task of eliminating illegal construction of private houses by party and government cadres should be carried out strictly and violations of law and discipline by party members and leading cadres should be dealt with sternly.

Chen Fawen said: The aforementioned guidelines are very important. They are of great significance in guiding the province in carrying out to the end the task of eliminating the "three violations" by party and government cadres in building private houses. The task was begun in the province last June. Since then, much has been done by all localities. Throughout the province, 21,062 party and government cadres were found to have built private houses. Of the total, 208 were at the county-level, 7,220 were in the division or bureau level, and 13,634 were ordinary cadres. The number of party and government cadres who committed the "three violations" in building private houses was about 5,650. In order to have a unified policy for handling those committing the "three violations," the provincial and local authorities have made repeated studies suggestions. As of now, more than 1,600 party and government cadres who committed the "three violations" in building private houses have been dealt with and the results are very remarkable.

Chen Fawen said: At present, the task is well under way throughout the province. Whether the task will be carried out to the end or just superficially depends on how seriously housing violations by party and government cadres are handled. If the task is carried out perfunctorily this time, it will hamper future effort to promote honesty in government and in party style. We clearly understand this consequence. At present, the task of eliminating the "three violations" is not occurring evenly throughout the province. In keeping with the spirit of separate guidance [fen lei zhi dao 0433 7352 2172 1418], I would like to present my opinions with regard to the following four situations:

The first situation is that party committees and governments in some places have always paid good attention to this matter and firmly grasped the work. In these places, party committees and governments have not only strictly handled violations of law and discipline in housing

construction, but have also formulated rules and regulations on this matter. They have achieved significant results in correcting the building of private houses by cadres. It is hoped that these places will continue to seriously grasp this work for a time. Quality is more important than speed. Before solving all problems in a proper manner, we must not hastily announce that the work is complete.

The second situation is that party committees and governments in some places have made great efforts to straighten out housing construction by cadres, but those units have not effectively handled violations of law and discipline by cadres in building private houses. At present, their work has bogged down. If we let this situation continue, our work to correct cadres' housing construction will become perfunctory and we will not be trusted by the people. It is hoped that leading party and government cadres in those places will clearly understand this point. In those places, the problem of the "three violations" has not been properly handled. This shows that party committees and governments in those places have met obstacles. The obstacles are of various kinds, but the main one is that some cadres who have built private houses in violation of law and discipline are resisting correctional measures in order to protect their vested interests. Those cadres, due to their egoistic nature, have disregarded the fundamental policy of the state and the reputation and image of the party and government, violated party discipline and state discipline, and harmed the interests of the party and the people. As of now, those cadres still obstinately stick to the wrong course. If we tolerate their wrongdoing, the public will not be able to distinguish clearly between right and wrong, healthy trends cannot be developed, evil tendencies will be more widespread, and negative influences and corruption will be further aggravated. Some comrades are afraid that strictly handling the problem of "three violations" may be unfavorable to preserving stability. This kind of thinking is incorrect. Setting strict demands on party members, strengthening the development a clean government and punishing corruption are the desire of the broad masses of cadres and people and also a strategic measure by which to improve relations between the party and the people. Although the number of corrupt elements within the party is very small, the broad masses of cadres and people bitterly hate them. If we do not resolutely punish corruption, we will divorce ourselves from the masses. In order to punish corruption, we struggle against the evil practices of the small number of corrupt elements because tolerating evil is to abet it.

The third situation is that in some cities and counties where old leaders have just been replaced by new ones, various tasks have not been clearly divided among new leading groups and the work of cracking down on the building of private houses by cadres in violation of law and discipline has not been effectively grasped. In this way, the work of straightening out housing construction is out of line with the requirements. We must correct this

situation in a prompt manner. If cadres in charge of straightening out housing construction have been transferred to other posts, we must assign new cadres to take charge of the work. If the original organs and staff members in charge of the work are dissolved, we must reorganize them. We should make sure that there are sufficient leading cadres in charge of the work in order to successfully complete the task of correcting the building of private houses by cadres.

The fourth situation is that as of now some individual counties (cities) have not taken any concrete action on this matter and are not seriously carrying out the task of straightening out housing construction. The provincial party committee and provincial people's government call on party and government leaders in those places to conscientiously study and understand the guidelines of the Fourth, Fifth, and Six Plenary Sessions of the 13th CPC Central Committee, and enhance their ideological understanding in the important tasks of building a clean government and improving the party's work style and of maintaining close ties with the masses. They should promptly make the necessary arrangements and carry out their work in accordance with the requirements set by the provincial party committee and the provincial people's government.

### Zhejiang Marks Anniversary of Mao's Talk

OW0606062890 Hangzhou ZHEJIANG RIBAO  
in Chinese 23 May 90 p 1

[Text] Today, the best way to commemorate the "talk" is to adhere to the basic principles and guidelines outlined and strive to enrich socialist literature and art. People of the cultural, literary and art, press, publishing, broadcasting, and television circles in our province met at a solemn meeting yesterday to commemorate the 48th anniversary of the publication of Comrade Mao Zedong's "Talk at the Yanan Forum on Literature and Art."

Liu Feng, deputy secretary of the provincial party committee, addressed the meeting. He said: Comrade Mao Zedong's "Talk at the Yanan Forum on Literature and Art" is a brilliant Marxist document because it creatively developed Marxist thinking on literature and art. Its ideological charm and theoretical value are now even more clearly with the passage of time. Up till now, it is still the basic principle guiding socialist literature and art. Under its guidance, literary and art workers in our province have contributed to enriching socialist literature and art. Literature and art have flourished particularly since the Third Plenary Session of the party's 11th Central Committee. Nevertheless, we must not underestimate the influence of bourgeois-liberalization; such phenomena as neglecting reality and slackening the study of Marxism-Leninism-Mao Zedong Thought still exist to varying degrees; the people need good literary and artistic works, but our creations are still far from being able to meet their needs. Therefore, we must work harder to enrich Zhejiang's literary and art undertakings.

Liu Feng said: To achieve the goal of enriching socialist literature and art, we must, under present circumstances, do especially well in solving two problems and laying two foundations. The two problems are as follows:

1. We must continue to eliminate the influence of bourgeois liberalization and adhere to a correct orientation in literature and art. The literary and art front has been one of the areas seriously victimized in the past few years during the rampant tendency toward bourgeois liberalization. On this front, there are erroneous ideas and theoretical viewpoints which need to be corrected with the basic tenets of Marxism and the Marxist outlook on literature and art. This must be done first before we can enrich socialist literature and art. However, some comrades have failed to understand that the struggle will be long and arduous, and some are even muddle-headed. When called to sum up experiences in opposing the tendency toward bourgeois liberalization, they retort by asking whether it is still necessary to enrich literature and art; when the question of opposing liberalization is raised, they ask whether the "double hundred" policy should be continued. They also ask whether there is any freedom of creation left. In fact, in opposing bourgeois liberalization, we aim at enriching socialist literature and art in a still better way, implementing the "double hundred" policy better, and giving writers and artists more freedom of creation. Therefore, education on upholding the four cardinal principles and the struggle against bourgeois liberalization must be continued for a long time to come.

2. We must raise morale and strengthen the unity of literary and art workers. Disunity in the ranks has almost become a stubborn malaise of history, and we must be determined to solve this problem. The unity we have just mentioned means adhering to the four cardinal principles and a correct orientation in literature and art. There is no doubt that we must criticize and struggle against the liberalization tendency; we must also criticize and assist in coping with erroneous ideas and unhealthy works. However, in handling historical problems, we should keep in mind the future and development instead of going into particulars; in dealing with knotty problems which do not concern principles, we should seek common ground on major questions, while reserving differences on minor ones, and we should also be strict with ourselves and broad-minded toward others. Men of letters should give up personal grievances, refrain from scorning each other, and abandon sectarianism; instead, they should respect each other, be close friends, and contribute to enriching literature and art. Leading comrades from literary and art circles, particularly those who are party members, should conduct thorough and meticulous ideological and coordination work in order to promote unity among literary and art workers by eliminating personal grievances among them.

The two foundations Liu Feng mentioned in his speech are as follows:

1. We should conscientiously study the basic theories of Marxism and Marxist thinking on literature and art, raise our ability to understand life and grasp the essentials, lay a sound ideological foundation for ourselves.

He expressed the hope that the masses of literary and art workers would make special efforts to study the basic theories of Marxism, repeatedly study Chairman Mao's "Talk" and "Deng Xiaoping on Literature and Art," to understand and study literature and art from a higher, deeper, and wider angle, and to enrich and develop literature and art, thus becoming genuine writers and artists serving mankind.

2. We should go among the masses to lay a sound foundation. The practice of revolutionary literature and art in the past half century has proven that it will flourish whenever close ties with the masses are maintained and suffer setbacks and depression if it is divorced from the masses. Writers and artists have also learned that their creations will succeed when they maintain close ties with the masses and express the masses' wishes and opinions; otherwise, their works will stagnate and retrogress. Literary and art workers should take the initiative to strengthen close ties with the masses through various channels. Party committees and governments at all levels and specific leading departments in charge of literature and art should adopt effective measures, draw up practical plans, and create favorable conditions for writers and artists to go among the masses.

In conclusion, Liu Feng said: Zhejiang has a rich cultural foundation, with numerous outstanding personalities, and has produced famous men of culture and eternal literary and artistic works. Today, as long as we follow the "Talk's" guidelines, serve socialism and the people, adhere to the "double hundred" policy, enrich literature and art while combating pornography, and as long as literary and art workers go among the masses, explore boldly, and work hard in unifying, Zhejiang's literature and art will continue to flourish.

Attending the commemoration meeting were more than 500 people, including Ma Shouliang and Liang Pingbo, deputy directors of the Propaganda Department of the provincial party committee; literary and art veterans Huang Yuan, Chen Xuexiao, Mo Pu, and Shi Hang; and comrades and representatives from departments concerned.

## CENTRAL-SOUTH REGION

### Shantou Cracks Down on Armed Criminals

HK1406150190 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 14 Jun 90

[Text] Over the past three months, public security organs at all levels in Shantou City have carried out a campaign aimed at cracking down on criminals armed with guns, and knives.

Up to now, Shantou City has smashed 28 criminal organizations, arrested 284 criminals who have committed major or serious crimes, and captured 42 guns and 118 knives and daggers.

Since this year's Lunar New Year Festival, there has been an upsurge of criminal activities involving the use of guns and knives in Shantou City, which has seriously threatened the safety of the broad masses of the people and disrupted the normal social order in the city.

In view of this situation, the Shantou City Public Security Bureau decided, in March of this year, to unfold a city-wide campaign aimed at cracking down on criminals armed with guns and knives.

### Guangdong Party Official Dismissed Over Housing Abuse

HK1306081090 *Guangzhou Guangdong Provincial Service in Mandarin* 0400 GMT 12 Jun 90

[Text] (Chen Xi), a member of the Conghua County Party Committee Standing Committee and chairman of the Conghua County Chinese People's Political Consultative Conference [CPPCC] Committee, has been dismissed from all his posts inside the party for his serious mistake of abusing power to build private houses.

(Chen Xi) and his two sons had had three apartments allotted to them by the authorities. During the Spring Festival in 1988, (Chen Xi) asked the (Hedong) Real Estate Joint Development Company of the country to sell him a piece of 150 square meter land at the low price of 5,000 yuan. In August of the same year, he built a five-storied factory building with a floor space of 969.92 square meters on a piece of 187 square meter land in an attempt to lend it to enterprises. While the building was under construction, (Chen Xi) also used fraudulent means to purchase steel products, cement and other building materials at low prices, getting a bargain of more than 37,000 yuan.

Approved by the provincial party committee, the Guangzhou City Party Committee has decided to dismiss (Chen Xi) from all his posts inside the party, such as alternate member of the Guangzhou City Party Committee, member of the Conghua County Party Committee, and secretary of the leading party group of the Conghua County CPPCC Committee, and asked the Conghua County Government to purchase the building he illegally built.

The following is an editor's note from the station.

The former secretary of the Conghua County Party Committee and currently chairman of the Conghua County CPPCC Committee, (Chen Xi) has been dismissed from all his posts inside the party on the charge of abusing power to build private houses. This serves as a good lesson to people, and particularly to leading cadres, that we should start well and end well in exercising our

power for public interests. When holding office, communists should serve the people and work as public servants. This principle is known to all. For example, (Chen Xi) joined the revolution in 1944. He had worked as county magistrate and county party committee secretary. He was trusted and supported by the people because he had made tremendous effort toward putting an end to the backwardness of Conghua. However, why has he finally met with a setback because of seeking personal gain? It is said that he thought a few years ago that he would soon retire, so he had to seek some personal gain after he worked for the public all his life. That is why he racked his brains and employed all available means to build a private building with a floor space of about 1,000 square meters which can afford accommodation for about 100 ordinary people even though he had had three large public apartments. Once the guiding ideology changed, the quality of a communist party member changed too.

It has been learned that quite a few leading cadres have committed the error of abusing power for personal gain and their guiding ideology is similar to that of (Chen Xi). For this reason, we feel it is necessary to bring up a statement of the past—we should uphold our revolutionary integrity in our later years. This means we hope that all veteran comrades in leadership posts will start well and end well in carrying out the revolutionary cause, work for the public with one heart and one mind and will never seek personal gain.

### SOUTHWEST REGION

#### Drug Trafficking 'Running Rampant' in Yunnan

HK1506094790 *Hong Kong WEN WEI PO in Chinese*  
8 Jun 90 p 17

[“News from Kunming: Drugs Spread Unchecked in Yunnan”]

[Text] Yunnan Province is situated to the north of the Golden Triangle, which is flooded by drugs. It seems that everybody in this province is familiar with the other names of heroin—"number four" or "white power."

Nowadays China is facing the drug issue again, 40 years after the opium trade was extinguished in this country. The drug issue is particularly serious in Yunnan. Wild marijuana mainly grows in Yunnan Province and some other places in China. What worries the government are morphine, opium, and especially heroin extracted from the opium poppy. The southern part of China has now become the major outlet for drugs produced in the Golden Triangle, located at the junction of the Lao, Burmese, and Thai borders, which supplies two-thirds of the opium on the world market.

Narcotic drugs are hidden in trucks carrying teak, rubber, and other goods and smuggled into Shanghai, Guangzhou, and other ports in East China via the mountain areas of Yunnan. Then these narcotic drugs

are shipped in large quantities to Europe and the United States via Hong Kong and Macao. Meanwhile, neural drugs are consumed in Yunnan, where there are allegedly some 1,000 drug addicts. Many of these drug addicts are thieves, prostitutes, or even robbers who would not hesitate to commit murder to secure drugs. It is reported that dozens of people have died of drug overdoses.

But what is most astonishing is the sudden spread of AIDS. It is alleged that by last February a total of 146 peasants in Yunnan Province had contracted AIDS through the use of unclean syringes. Most of these patients are minority nationality residents of Ruili Town, near the Burmese border.

Heroin is easily obtainable in Ruili for 20 yuan per gram. But in Kunming, the price may soar to 100 yuan per gram. To be sure, that is a considerable sum of money for the vast majority of Chinese. It is still affordable for prostitutes, individual households, and taxi drivers, though. Prostitutes sometimes also act as brokers in the drug trade. They contact potential customers outside hotels or ballrooms. Then, after bargaining, the customers are shown to toilets where they make the deals with drug sellers.

Another astonishing fact is that drug addicts include not only urban people but also peasants in the rural areas, especially in those areas bordering on Laos and Burma.

In Yunnan, anyone in possession of a small quantity of morphine, opium, or heroin is liable to 15 days' custody or a fine of up to 3,000 yuan.

Serious law breakers will be sent to reform-through-labor camps; and those who are involved in criminal offences, say, drug trafficking, can be sentenced to death. Last year, 60 drug traffickers were executed in Yunnan, and the police seized 300 kg of heroin. A 1,300-strong anti-drug-trafficking task force has been set up to fight drug traffickers in Yunnan. As a part of the international anti-drugs joint operation, Chinese public security departments have been working together with Interpol.

Despite all these efforts, the drug trade is still running rampant. Newspapers report that drug traffickers resume their activities after police operations, and there are some 10,000 opium and heroin smugglers just in the Dehe area, which is located near the Burmese border. Yang Guanjin, an official of the Yunnan Provincial Public Health Bureau, said: So far 538 drug addicts have received treatment at the two rehabilitation centers of the Public Health Bureau. Other people have been sent to treatment centers run by local public security organs. On the other hand, although an anti-drug-trafficking network is taking shape in Yunnan Province, equipment for the prevention of AIDS is far from adequate. The whole province has only one AIDS research center, which in fact is merely a blood testing laboratory run by Kunming Hospital.

## NORTH REGION

### Inner Mongolia Meeting on Current Education Ends

SK0806131090 Hohhot NEIMENGGU RIBAO  
in Chinese 12 May 90 p 1

[Text] The regional meeting to exchange experiences in education on the current situation has concluded in Tongliao City.

Present at the meeting were directors of the propaganda departments of 12 leagues (cities) and some banners (counties) and responsible persons in charge of ideological and political work from some units. More than 10 units, including Jirem League, Tongliao City, Donglai Town of Kailu County, and Zhalan Village, recounted their experiences at the meeting. Wuyunqimuge, Standing Committee member of the regional party committee and director of the regional propaganda department, made a summing-up speech at the meeting.

After analyzing regional propaganda and the ideological fronts' situations, Wuyunqimuge pointed out in her speech: Our region gained fundamental experience in conducting education on the current situation in the preceding stage as follows: Leaders at various levels paid attention to education and personally grasped and conducted education. The region conducted education by thoroughly grasping the current situation, as well as the feelings of the people, in line with actual conditions. By respecting the people's key role, we integrated propaganda, inculcation, and mass education on the current situation with solutions to practical problems in production and livelihood; we worked solidly to make educational work become more convincing; and we forcefully directed the mass media through propaganda resources like the press, radio, and television.

Regarding the issue of how to further achieve education on the current situation, Wuyunqimuge emphatically pointed out: In conducting education on the current situation and education on other matters, we should put the main subject of socialist education in a prominent position; we should stress the superiority of the socialist system; we should disseminate our great achievements in socialist construction under the leadership of the party; we should stress that only socialism can save and develop China; we should clearly state that the eventual replacement of capitalism by socialism is the general trend of history in order to foster firm socialist belief among the people; and we should explain the basic characteristics and basic principles of socialism. Education on the current situation with socialism as the primary subject should be integrated with education on other matters, theoretical study, propaganda, and ideological and political work. She said: These most fundamental principles have been down-played over the past few years and were even ignored for a period of time. On the contrary, there were many opinions and articles stressing capitalism's good points. Some people even

consciously or unconsciously played the part of missionaries for capitalism. They did not utter a single word about the various misuses, evil phenomena, or incongruous contradictions of capitalism, and they completely wrote off the gigantic achievements made by New China in socialist construction over the past 40 years or so, as well as overlooking the superiority of socialism. We must conscientiously learn from this lesson and never allow the capitalist class' fabricated propaganda to occupy our ideological front. Wuyunqimuge said that achievements in education on the current situation will be embodied in the following two aspects: First, a political situation characterized by stability and unity will be formed; second, a situation where the economy develops constantly, steadily, and harmoniously will result. This is the main criteria for judging the work of the ideological front at present.

## NORTHEAST REGION

### Harbin Institute Pleased With Returned Student Numbers

90P30045A Harbin HEILONGJIANG RIBAO  
in Chinese 23 Apr 90 p 1

[Article by reporter Liu Rongsheng (0491 2837 0581): "The Report on Returning Overseas Students Is Gratifying"]

[Summary] 21 Jun HEILONGJIANG RIBAO dispatch—The Harbin Medical University First Institute's report on 23 April on the outcome of the institute's personnel sent overseas to study was enthusiastically received by its 500 doctors and nurses.

In recent years, the institute has sent 69 doctors and nurses to study in the United States, Japan, and other countries. To date, 39 have returned. Of the returned personnel, who gave the report, one had been sent to Canada, one to France, and four to Japan before and after last year's "disturbance." Almost all of them had been urged to stay on with offers of high salaries and excellent benefits. Liu Haitang, who had gone to the U.S. to study, said that her instructor had repeatedly expressed his willingness to give her financial support so she could stay on another two or three years. She declined, saying, "I am a small blade of grass and cannot leave the sun of the motherland." Dr. Li Huimin, 33, had gone to Japan to study for two years. His wife and son had gone to Japan on the eve of his graduation to see him. Japanese doctors had tried to persuade him to practice in Japan, citing a monthly salary of 300,000 yen. He "resolutely" refused. Obstetrician-in-charge Zheng Jianhua said that if she had stayed another year in Japan, she could have written a Ph.D. dissertation. Instead, she took into account the overall situation and returned home as scheduled.

### Liaoning Forum of Democratic Parties Held

SK1206132390 Shenyang LIAONING RIBAO  
in Chinese 12 May 90 P 1

[Text] On the afternoon of 10 May, the provincial party committee invited leading persons of various democratic parties and the Federation of Industry and Commerce and representatives of nonparty personages to a forum to solicit their opinions on the suggestions of the Liaoning Provincial CPC committee on implementing the "proposal of the CPC Central Committee on upholding and improving the system of multiparty cooperation and political consultation under the leadership of the CPC."

Sun Qi, deputy secretary of the provincial party committee, attended the forum. Liu Qingkui, director of the United Front Work Department of the provincial party committee, presided over the forum.

Leading persons of various democratic parties and the Federation of Industry and Commerce and representatives of nonparty personages held that in general, all the people were satisfied with the implementation suggestions of the provincial party committee because they are brief and to the point and manifest the guidelines of the "proposal" of the party Central Committee. The implementation suggestions are feasible because they were formulated in line with our province's actual conditions, embodying the necessity of strengthening and improving the CPC leadership, fully promoting socialist democracy and displaying the role of democratic parties in participating in the consultation on the major state affairs and in democratic supervision. This shows that the provincial party committee has paid great attention to implementing the "proposal of the CPC Central Committee" and that its cooperation with various democratic parties is sincere.

The participants also offered some specific opinions and suggestions. Some comrades said that the key to implementing the "proposal" lies in enhancing the understanding of the CPC leaders at all levels and strengthening their consciousness in implementing the "proposal." They suggested efforts be made to conduct education on our country's political systems, political party system, and political party structure among the CPC leading cadres at all levels, to conduct a reeducation on the united front theoretical policies, and implement all measures mentioned in the "proposal" in places where needed. Some comrades suggested that the provincial party committee make regular checkups after the implementation suggestions have been formally issued to the lower levels, and continue to improve the system of multiparty cooperation and political consultation in line with the situation and problems cropping up in the course of implementation.

During the forum, leaders of various democratic parties held that in implementing the "proposal," democratic parties should strengthen self-cultivation, conduct education on upholding the four cardinal principles and opposing bourgeois liberation, and on the historical

tradition of the long history of cooperation between the CPC and democratic parties in an effort to meet the demands of upholding and improving the long-term cooperation and the needs of stabilizing the political and economic situation and strengthening the building of democratic politics.

Taking the floor one after another at the forum were Niu Pingfu, Liu Mingjiu, Ma Pinfang, Gao Qingzhou, Jiang Shaoqin, Zhang Yuming, Liu Chun, Wu Congfang, Mo Taiyun, Li Chunpei, Li Yingzhang, and Zhang Fuyun.

In his speech, Sun Qi said: Implementing the "proposal" of the CPC is a major issue. All comrades have conscientiously offered many suggestions, showing that all of you have shown great concern for this major issue. Your suggestions are very good and very helpful for revising and improving the implementation suggestions of the provincial party committee. We will strive to adopt your opinions in order to make the implementation suggestions of the provincial party committee better and make them tally with the actual situation. After making some revisions in line with your opinions, the provincial party committee will issue them as an official document. All people should conscientiously implement it in an effort to promote political and economic stability and the building of democratic politics in our province.

#### **Heilongjiang Issues Guidelines on Personnel Affairs**

*SK1606030090 Harbin HEILONGJIANG RIBAO  
in Chinese 13 May 90 p 3*

[Text] At a provincial forum on the implementation of the responsibility system for attaining certain targets, which ended on 11 May, the Organization Department of the provincial party committee and the provincial Personnel Affairs Department put forward the following: In the future, without being under any special circumstances, cadres who fail to attain their work targets for two years in a row shall not be promoted to important posts. It is necessary to adopt effective measures by practicing the responsibility system for attaining certain targets, carry out the system in which leaders can be promoted or demoted, and optimize the structure of the leading body groups.

The Organization Department of the provincial party committee and the provincial Personnel Affairs Department also proposed: It is necessary to link the fulfillment of work targets with the rewarding, punishment, and employment of cadres. In the course of implementing the responsibility system for attaining certain targets, we should link the results of the appraisal of work targets with the rewarding, punishment, promotion, demotion, readjustment, and employment of cadres, promote or reward those persons who are good in political quality, have a high sense of the revolutionary cause and a high leadership level, have fulfilled or overfulfilled their work targets, have made fairly great contributions to leading posts in line with our work requirements, and may be included in the list of reserve cadres. Those whose

political quality, work, and leadership ability are ordinary and who have failed to fulfill the work targets because of their insufficient subjective efforts must make readjustments within a definite time, or be urged to leave office for training. Those whose political level is poor and who have a poor sense of the revolutionary cause and poor leadership ability, are incompetent in their current posts, and cannot fulfill their work targets should be dismissed from their leading posts in line with their evaluations at regular intervals and be properly moved to other jobs.

Our province's responsibility system for attaining certain targets has been implemented since 1987 on the basis of implementing the system of personal responsibility among organs. This indicates that our province's system of personal responsibility among party and government organs and the targeted management work have entered a stage of unified demands and management and steady development. Over the past three years, organizations at all levels and all personnel affairs departments proceeded from having a firm grasp of the building of systems, implemented the responsibility system for attaining certain targets in all fields, and in line with the guiding principle of "consolidation, improvement, and actual results," promptly turned their work of grasping and popularizing this system to improving and perfecting it. At present, the city (prefectural), county and township (town) organs throughout the province have basically implemented this system.

#### **Heilongjiang Law Office To Deal With Foreigners**

*SK1606035890 Harbin HEILONGJIANG RIBAO  
in Chinese 17 May 90 p 3*

[Text] The Heihe Prefectural lawyers office dealing with foreigners—the province's first comprehensive legal service organ to handle business relations with foreigners—was established and began operation on 15 May. This lawyers office not only accepts the invitation by the state organs dealing with foreigners, economic and trade enterprises, and overseas legal persons and citizens to serve as a legal adviser, but also accepts the invitation to serve as an attorney to handle economic, civil, and administrative cases and incidents not involving lawsuits, participate in mediation and arbitration activities, and accept the invitation to defend and serve as an attorney for the criminal cases involving foreigners, and to give testimony and consultation.

#### **Heilongjiang Discusses Pre-election Tasks**

*SK1306005090 Harbin Heilongjiang Provincial Service  
in Mandarin 0900 GMT 30 May 90*

[Text] The provincial work conference on the end-of-term election of deputies to the People's Congress at county and township levels concluded on 30 May. Participants in the work conference emphasized that various localities must regard the conducting of the election as a

great event in the political life of the people of the province, and they should conduct the work vigorously and satisfactorily.

Wang Jun, vice chairman of the provincial electoral committee, presided over today's conference at which, Qu Shaowen, vice chairman of the provincial electoral committee, delivered a speech in which he stressed that while earnestly relaying the speeches given by Comrades Wang Haiyan and Wang Jun, various localities should put forward measures for carrying out the election in line with the spirit of the speeches.

In his speech, Comrade Qu Shaowen urged various localities to have the electoral work be carried out organizationally, to train support personnel, and to elect as soon as possible the leading organ of electoral work. Efforts should be made to assign capable cadres to organize work teams for the electoral work. Meanwhile, we should enhance guidance over the work of carrying out end-of-term election of deputies to the People's Congress at county and township levels to ensure the quality of the electoral work. The Standing Committee of People's Congresses at all levels and organs in charge of the electoral work should, based on the work of deeply carrying out investigation and study, formulate plans meticulously, make careful arrangements, and conduct guidance in line with the law. Prefectures and cities should select a district of county-level cities as an experimental zone for the electoral work and districts in county-level cities should also select a township or town for such a purpose. They should gain experience in the experimental zone to promote the electoral work in their entire area. After the work is fully carried out, leading comrades in charge of the electoral work should go deep into the electoral areas to investigate and study, to summarize the experience, and to conduct face-to-face guidance.

In his speech, Qu Shaowen stated that organs at provincial, prefectural, city, and county levels should enhance their contacts in the electoral work and gather information in a timely manner. Cities and prefectures should report their electoral work development every half month to the office of the provincial electoral committee and report their important and serious problems in a timely manner.

### Liaoning's Plans To Attack Crime

*SK1306013390 Shenyang Liaoning Provincial Service in Mandarin 0930 GMT 26 May 90*

[Text] The Central Commission of Political Science and Law recently decided to concentrate on waging a struggle against serious crime in the period from now till this year's National Day.

On the morning of 26 May, the provincial party committee and provincial people's government jointly sponsored a telephone conference to make arrangements in an overall way for waging a struggle against serious crimes across the province.

It was pointed out at the conference that by proceeding from reality, our province should deal strict blows in urban areas at the criminal activities of robbers and gangsters. Efforts should be made to emphatically deal blows at the stealing of state property and destruction of oilfields and production facilities in enterprises and their nearby areas. In rural areas, we should emphatically strike at the theft and destruction of water power stations and water conservancy facilities.

During the telephone conference, (Tian Fengqi), secretary general of the provincial people's government, delivered a speech in which he put forward the province's plan for dealing strict blows at criminal activities and discussed the targets and areas of struggle as well as methods, steps, and measures by which to attack crime. He also clarified the relationship between policy, discipline, and organizational leadership.

Also addressing the telephone conference were Zhang Tiejun, vice chairman of the provincial People's Congress Standing Committee; and Chen Suzhi, vice governor of the province.

The written speech of Quan Shuren, secretary of the provincial party committee, was read at the telephone conference by Wang Julu, deputy secretary of the provincial party committee.

### Heilongjiang Reports Progress in Procuratorial Work

*SK1306034190 Harbin Heilongjiang Provincial Service in Mandarin 2100 GMT 31 May 90*

[Text] According to the minutes of the work conference concluded on 31 May on the investigation conducted by the procuratorial organs across the province over the cases of infringing upon others' rights and dereliction of duty, during the January-April period this year, the procuratorial organs across the province accepted 640 cases of infringing upon others' rights and dereliction of duty, a 3.1 percent increase over the same period of 1989; and placed 232 cases on file for investigation, a 66.9 percent increase over the same period in 1989. Of the 232 cases, the number of serious and appalling cases reached 29, a 93.3 percent increase over the same period in 1989.

In waging the strong struggle against embezzlement and acceptance of bribes, the procuratorial organs at all levels across the province have always placed priority in investigating cases in which law and discipline were violated. While investigating and dealing with economic crime, they paid attention to exposing the details in solving law and discipline violation cases and to deeply uncovering economic crime while investigating and dealing with the cases in which law and discipline were violated.

At the work conference on 31 May, Jia Chengwen, chief procurator of the provincial people's procuratorate, delivered a speech in which he called for continuously doing a good job in investigating cases of infringement

upon others' rights and dereliction of duty and stated that efforts should be made to fully understand the importance of investigating cases in which law and discipline were violated; bringing into full play the role of functional departments; scrupulously abiding by duty and dealing with cases impartially; giving priority to major cases; dealing with more and major cases satisfactorily; steadily enhancing a sense of and raising the standards of investigation; and making contributions toward stabilizing society, eliminating corruption, and promoting the building of socialist democracy and legal systems.

### **Qingyuan Manchu Autonomous County Established**

*SK1006234290 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 6 Jun 90*

[Text] A rally to celebrate the establishment of the Qingyuan Manchu Autonomous County was ceremoniously held at the Qingyuan County seat on the morning of 6 June. Vice Governor Chen Suzhi, (Yu Yongxiang), chairman of the provincial Nationalities Affairs Commission, and (Liu Long), deputy director of the General Office of the State Nationalities Affairs Commission who made a special trip to the rally from Beijing, and leading comrades of the Central United Front Work Department and the Standing Committee of the National People's Congress [NPC] attended the rally.

Establishing Qingyuan Manchu Autonomous County was the proposal of the provincial government in 1988 on establishing five Manchu autonomous counties, including Beizhen, Benxi, Huanren and Kuandian. The State Council formally approved their establishment in June and September last year. Thus far, the eight Manchu and two Mongolian autonomous counties in our province have realized regional autonomy. This has fulfilled the long-cherished wish of the 5,070,000 minority people of the whole province, represented by Manchu and Mongolian people.

Leading comrades of the State Nationalities Affairs Commission, including (Liu Long), Vice Provincial Governor Chen Suzhi, and leaders of Fushun city, gave speeches at the rally. Chen Suzhi said: The establishment of the autonomous counties has added a new chapter to the annals of Qingyuan County. In the future, the tasks facing the people of various nationalities in Qingyuan County will still be glorious but arduous. It is hoped that cadres and the masses of various nationalities in the county will strengthen the study of Marxist theories on nationalities and the party's policies on nationalities, foster a correct concept towards nationalities, further consolidate and develop the socialist national relations marked by equality, unity and mutual help, consciously safeguard social stability, fully display local favorable conditions, rely on scientific and technological progress, and enable the economy to embark on a path of sustained, steady and coordinated development as soon as possible. At the same time, it is necessary to actively

develop cultural and educational undertakings and strive to raise the scientific and educational levels of the people of various nationalities. At the end of her speech, Chen Suzhi sincerely wished Qingyuan Manchu Autonomous County prosperity and its people richness and happiness.

### **Beizhen Manchu Autonomous County Set Up in Liaoning**

*OW1606014990 Beijing XINHUA in English 1436 GMT 15 Jun 90*

[Text] Shenyang, June 15 (XINHUA)—Beizhen Manchu Autonomous County has been officially set up in northeast China's Liaoning Province, which has China's largest concentration of Manchus.

Beizhen's 303,000 Manchus account for 58.2 percent of its total population.

There are now 13 Manchu autonomous counties in China—eight in Liaoning, four in Hebei Province and one in Jilin Province, according to the Ministry of Civil Affairs.

## **NORTHWEST REGION**

### **Gansu Handles Law, Discipline-Violation Cases**

*HK0106004390 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 30 May 90*

[Text] Supervision organs at all levels in Gansu Province have made new progress in their struggle against cases violating law and discipline this year.

In the first four months of this year, supervision organs at all levels in Gansu handled more than 3,790 letters, visits, and telephone calls from the masses, investigated more than 1,000 cases involving violation of law and discipline, and settled a total of 295 such cases.

Since the beginning of this year, supervision organs at all levels in Gansu have concentrated their efforts on investigating and cracking law-violation and discipline-violation cases involving leading organs and leading cadres, particularly some major and serious law-violation and discipline-violation cases which have caused strong resentment among the broad masses of the people.

Lu Xiangdong, secretary general of the Jiayuguan City People's Government, was removed from office for illegally spending more than 1,490 yuan of public money during a business trip and fraudulently claiming more than 670 yuan of trip expenses from the government.

Li Jianning, manager of the Lanzhou Medicine Wholesale Center under the Gansu Provincial Medicine Company, was expelled from the civil service with one-year suspension for allegedly causing economic losses totaling 0.6 million yuan to the state and various enterprises.

From January to April, supervision organs at all levels in Gansu investigated a total of 167 various types of cases, disciplined 176 people, among whom six were cadres at department or county levels and 37 were cadres at section level, turned nine people over to the judicial organs at various levels for punishment, and recovered economic losses totaling more than 3.2 million yuan for the state.

At present, supervision organs at all levels in Gansu are still concentrating their efforts on investigating a number of major and serious cases.

### **Gansu Governor Inspects Work of Banning Drugs**

*HK1306081390 Lanzhou Gansu Provincial Service  
in Mandarin 2300 GMT 12 Jun 90*

[Text] Yesterday morning, Jia Zhijie, deputy secretary of the Gansu Provincial CPC Committee and concurrently governor of Gansu Province, and Yan Haiwang, deputy secretary of the Gansu Provincial CPC Committee, went to a number of units in Lanzhou City to inspect the work of banning drugs there. The two leaders also put forward a number of new tasks for the banning of drugs.

At about 0900 yesterday, Comrade Jia Zhijie and Comrade Yan Haiwang arrived at Lanzhou Drug Rehabilitation Clinic. After listening to a work report by a person in charge at the clinic, the two leaders went into a rehabilitation room and talked with a young man named Wang Long.

The two leaders asked him whether he had read articles published in the newspapers in commemoration of the 150th anniversary of the Opium War. They said that in the past, foreigners poisoned the Chinese with opium. Drug addicts can never make contributions to the development of China. After listening to these remarks, some young addicts expressed profound regret over their own bad habits and resolved to give up drugs.

The two leaders then went into another rehabilitation room and talked with a 27-year-old woman drug addict. She is a mother of two children. She came to the clinic

together with her husband. She told Governor Jia Zhijie that she will do everything she can to give up drugs.

Comrade Jia Zhijie and Comrade Yan Haiwang then went to Chengguan District of Lanzhou City to inspect the work of banning drugs there.

Since last October, Chengguan District has set up a leading group in charge of the work of banning drugs as well as a drug-banning office. It has also set up drug-banning institutions in some 25 neighborhoods. Apart from stepping up education on banning drugs, Chengguan District has also built a number of drug rehabilitation clinics and severely punished a batch of drug smugglers. Now 40 percent of Chengguan District's drug addicts have either given up or agreed to give up drugs.

After listening to the work report by an official of Chengguan District, Governor Jia Zhijie said that the leaders of the central authorities have attached great importance to the work of banning drugs. Gansu has achieved gratifying results. However, problems still exist in this regard. In order to further promote the work of banning drugs in Gansu, leaders at all levels must ideologically attach great importance to the work, make every possible endeavor to mobilize the whole society to promote it, and carry out comprehensive treatment of the problem. To this end, it is necessary to make headway with the work of banning drugs in a planned way and to establish a responsibility system aimed at promoting the work at all levels in Gansu. Large enterprises and units should endeavor to solve problems in this regard by relying on themselves instead of relying on society to solve their problems. All departments concerned in Gansu must give unreserved support to the work of banning drugs in terms of personnel, funds, and materials. Efforts must be made to eliminate both drug addicts and drug smugglers and to severely, quickly, and strictly punish drug smugglers.

Governor Jie Zhijie finally said that all comrades engaged in the work of banning drugs in Gansu must understand the protracted nature of the work, properly help those who give up drugs live a normal life, and make greater efforts to eliminate both drug addicts and drug smugglers in Gansu.

**Capital Outflow Said Serious**

90CE0089A Taipei TIEN HSIA [COMMONWEALTH]  
in Chinese No 106, 1 Mar 90 p 160

[Editorial by Yao Mingchia (1202 2494 0857): "Capital Again Flowing Abroad In a Torrent; Since the Beginning of Spring, Large Quantities of Taiwan Capital Has Been Flowing Abroad, and Banks' Capital Is Circulating Secretly"]

[Text] After many years turnover of Taiwan money, the enthusiasm has somewhat abated, but some offshoots possibly still remain which cannot be treated lightly. Since the beginning of Spring, there have appeared in the domestic fiscal system two paths which are at once clear and yet deceptive. On the one hand, a large amount of capital is flowing abroad, while on the other hand domestic capital is in short supply.

Bankers estimate that within a month or two, in a situation whereby there will still be a favorable balance of trade in goods and labor services (approximately US\$1.1 billion), the domestic foreign exchange market, between banks and customers, calculate that there will be nearly \$4 billion in sales imbalances, demonstrating that the net capital outflow is nearly \$15 billion.

At the same time that capital is flowing abroad, it has led to banks restricting money. In order to satisfy liquidity requirements, the banks have repeatedly adjusted the money market or have demanded accommodation from the central bank. Consequently, money market interest rates for a time climbed to 13 percent. Moreover, presuming that the central bank maintains its policy of retrenchment, we can rely upon a stipulation that there will be a continuation of the 30 days accommodation, and after that it will begin to impose a 14.4 percent punitive interest rate.

As one financier pointed out, looking at a remote reason for the capital outflow, since 1987, the rise of the Taiwan dollar has continuously brought with it nearly \$20 billion in demand money. Last year's production year, the exchange rate was stable, at the same time stock market and real estate, under conditions of a slight upward price trend, necessarily realized some quick profits.

Looking at the immediate causes, there are so many: as the worsening domestic investment climate, political resistance, public order, communications and transportation, etc., so that enterprises have been forced to beg in order to exist and to avoid risks. One after another they take their capital and go.

In the torrent of these two types of causes, in just the past year, Taiwan's net outflow of capital is estimated to have reached \$15 billion.

On this phenomenon, Hsieh Senchung [6200 2773 0022], General Manager of the Central Bank, has all along stressed that one must differentiate whether it is actually "capital outflow" or "capital flight." The problem is relying on the foreign exchange reporting

system that the Central Bank has currently adopted, especially since it does not require advance reporting of exchange paid out when it is less than \$5 million. After capital has flown out, the Central Bank has no way of determining what the capital outflow was for, or to where it went.

Capital outflow is related to causing domestic capital to lower steadily. Last year the yearly increase in the supply of Taiwan dollars was in a continual downward slide, and by the end of the year was only 6.7 percent. The year's increase in savings deposits was 17.2 percent, the lowest record for the last 10 years.

Bank officials point out that the present financial system has two phenomena which are worth examining.

First, the fluidity of the banking system is structurally fragile, lacking the long-term financing to deal with long-term savings. According to the bank's data, at the end of last year the funds that the bank took in in more than one year (the total of more than one year's fixed reserves and fixed deposits), was only 1.5 trillion yuan, but when one adds in the loans paid out in that more than one year, the figure is nearly 1.9 trillion yuan. A financier has commented on this phenomenon, and as it happens his and the bank's own diagnosis of its fiscal enterprise are identical in their most used sentence: "Short-term loans flow into long-term use, and the use is extremely inequitable."

The cause of this lies in the fact that depositors lack interest in long-term savings, and they are moving in droves into short term loans, and using these together when necessary. Taking last year as an example, the fixed deposits for more than one year increased by only 140 billion yuan, while in the following year it increased by nearly 320 billion yuan.

Second, where money for recreation is in vogue, related to that is that the growth and decline of different financial structures is affected, especially and most quickly the development of credit unions. Many financial experts have pointed out that the credit unions are deeply involved with the stock market; in localities in the southwest, the great majority of the stock trading is done through persons concerned with the credit unions, secretly supporting the constant rumors around finances. Speaking of influences, last year the credit unions' deposits growth rate reached 31.6 percent, 11.5 percent higher than that of banking institutions.

The flow of capital out of the country and the unpredictable flow of capital, obviously have already sent out warning signals which are not easy to ignore. Whether the prosperity that is supported by recreational money still can be maintained this year is a major unsolved problem. In the past, it was possible to just flood everything with Taiwan dollars, but one cannot now say for certain whether that would prop up the Taiwan economy.

**Police Arrest 43 From Mainland**

*OW0206034890 Taipei CNA in English 0300 GMT  
2 Jun 90*

[Text] Hsinchu, Northern Taiwan, June 2 (CNA)—Police and coastal security forces arrested 43 mainland Chinese early Thursday morning shortly after they had landed on the beach of Hsinfeng Hsiang, Hsinchu County, in an attempt to smuggle themselves into Taiwan.

The mainlanders admitted that they had left Pingtan, Fukien Province, in a motorized sailboat on Tuesday

night. When the boat approached the waters off Hsinchu, they used a smaller boat to reach the beach in four groups.

Each had paid from 1,500 to 3,000 Renminbi to a middleman to get onto the sailboat. Most hoped to find jobs in Taiwan in order to make as much money as possible before returning to the mainland.

According to the coastal security forces, at least three of the mainlanders were women.

The Taiwan Garrison Command's northern area branch was continuing to investigate the case.

**British 'Right of Abode' Package Denounced**

90CM0118B Hong Kong *TA KUNG PAO* in Chinese  
9 Apr 90 p 6

[Article by Li Shu-sung (2621 2885 2646): "The British Right of Abode Has Questionable Goals"]

[Text] After stripping the veil off the face of the British right of abode plan so that Hong Kong citizens can see it, a careful study of the plan readily reveals its advantages and disadvantages to the Hong Kong people and to the British.

On the surface, the promulgation of the British right of abode plan appears to apply to several million people in Hong Kong, but in fact it is directed at less than one percent of the people, and those few are the wealthy, talented and powerful. In looking at the allocated quotas in the plan, one cannot help but doubt its true intentions.

The British explanation is that the British right of abode package is intended to "solve the serious problem of the outflow of talent from Hong Kong." That there is an outflow of talent from Hong Kong cannot be disputed, but where are these people going? Obviously not to Great Britain; only when the English also noticed this "serious problem" did they hypocritically produce a right of abode plan that is "too little, too late." This plan has only two real goals. The first is to take advantage of the outflow of talent from Hong Kong and nab both people and money while saying sweet-sounding things like it is all in order to "stabilize Hong Kong" and "persuade the talented people to remain." In reality, they just want to monopolize Hong Kong's talent and wealth and yet dare not admit it. The second goal is to benefit the English themselves. During the next six years, the English are prepared to scoop up profits Hong Kong; early on, they knew what was what. Confronting the large outflow of talent and capital from Hong Kong will undoubtedly have a certain impact on the Minister of Finance's wallet. Therefore, when the English promulgated the British right of abode with its high-sounding purpose of stabilizing Hong Kong, in fact the true purpose was no more than to stabilize their own purses. In view of the plan's preferential treatment of 500 wealthy families, this is not too hard to explain.

In fact, whether the announced plan will really stem the outflow of talent is doubtful. This inadequate measure not only divides the Hong Kong people, but also brings false hope to the vast majority of them. Whether this will bring stability to Hong Kong is even more doubtful. The reasoning is very simple; just think, if the rich business families all go to England in 1997, just leaving behind the laborers, how can we say that Hong Kong will be stable and prosperous? Even worse, based on the long and tedious material in the plan, the people of Hong Kong are regarded as a great scourge; not only are there many strict requirements, but there are many complex and harsh terms attached. For example, if the governor

believes an applicant is a person of "bad character," he may be turned down, without explanation or recourse to a higher authority.

Thus, the right of abode plan announced by the British is based on the following thinking: sweetness, strictness, and partiality. The sweetness means that Hong Kong citizens are to be given some sweets, but not all of them will be allowed to taste the sweetness. Strictness means that there will be strict age, education, profession, and other requirements in order to guarantee the high quality and high value of the people selected, with all others not mentioned. Partiality refers to the fact selection will be entirely based on how much the English will benefit; if one cannot benefit Great Britain somehow, it is useless to dream of receiving this special honor.

**Factionalism Within Local Democratic Groups**

90CM0134A Hong Kong *MING PAO* in Chinese  
9 Apr 90 p 20

[Article by Lu Fan-chih (7627 0416 0037): "The Moderate Faction and the Radical Faction: A Discussion of the Divisions and Unity Efforts of the Democratic Factions"]

[Text] The democratic factions which are at the forefront of the movement to organize political parties in Hong Kong may be able to form two or more political parties, but they are unable to unite all of the democratic faction members into one large party. In fact, the divisions which prevented the three main political action groups (the Association for Democracy and People's Livelihood, the Meeting Point, and the Hong Kong Affairs Society) from forming one democratic party these past few years continue to exist and are the reason that the democratic factions will form two or more parties.

The main reasons for the divisiveness are: the problem of the direction of class interests, the problem of relations with the Chinese Communists, and lingering ideological problems beneath the surface. With different stands and basic policies on these three major issues, it would be very difficult to unite into one party; even if they were reluctantly united, it would be difficult to maintain their unity in the face of serious internal divisiveness. They would either come together for the opportunistic purpose of electing a particular individual, or apply the term "party" to themselves when in fact they would be little different from the current political factions.

**Can the United Democratic Alliance Become a True Political Party?**

Currently, due to the move towards becoming a political party and due to splintering into smaller organizations, there have been internal splits in two of the so-called "three major factions," namely in the Association for Democracy and People's Livelihoods and in the Meeting Point. A portion of the members and people's representatives are participating in the soon-to-be-formed United Democratic Alliance. Another portion has decided not to

participate in the new party. Thus a new possibility has arisen: can this latter group cooperate and merge to form yet another "democratic faction" political party? If there is still doubt as to the actual strength of this type of merger, what [other methods] can they use to win power?

Actually, although the soon-to-be-formed United Democratic Alliance has declared itself a political party, its members still reflect the scope of the organization. They still have not surpassed the level of political participation of the Association for Democracy and People's Livelihood and the Meeting Point, and they do not have a clearer political platform than did the Association for Democracy and People's Livelihood. In other words, although the United Democratic Alliance has absorbed comparatively many democratic faction activists, and some first-line, well-known public figures and people's representatives have come to the fore, whether it can become a true political party still remains to be seen. People have sufficient grounds to raise the question: if a political organization does not choose a clear direction regarding class interests, shirks basic ideology on questions of political philosophy, and lacks a serious, clear political platform (party platform), can it be called a true political party?

#### Political Parties Need Clear Platforms

"Democratic front" organizations like the Association to Promote Democracy do not require a strict political platform; it is enough merely to engage in the fight for political democratization. Politically active organizations which are a step below political parties can also do without strict political platforms, because they tolerate members with quite different, and even opposite, views on basic issues. But a political party cannot be this way; in addition to advocating democracy, they need to have a serious political platform with a clear position on basic issues, and members must have more or less the same position on fundamental questions and be bound by the organizational rules of the political (party) platform. Under the current circumstances, does the Democratic Alliance take the lower-class position, the upper-class position, or the so-called "class-straddling" position on the issue of class interest? This is still unclear. In terms of a political philosophical ideology, are they basically in favor of social democracy or capitalist liberalism? This is also unclear. This reflects the confusion among the members; they cannot yet shed their image as "democratic front" organizations and politically active organizations.

#### The Basic Problem of Division in the Democratic Factions.

How do members of the Association for Democracy and People's Livelihood and the Meeting Point who do not want to participate in the United Democratic Alliance differ from members of democratic factions who do participate in it? According to what I have learned, there are at least three main differences:

On the one hand, most of those in the Association for Democracy and People's Livelihood and in the Meeting Point who have not joined the Democratic Alliance maintain a position clearly [aligned] with lower-class

interests. Not only are they disinclined toward those of the upper class, they also have few illusions about "class straddling" (whereby a party could simultaneously protect the interests of all classes). But they understand that a party, while fighting for the interests of the lower class, must negotiate with capitalists and industrialists (and their political parties) in society and in the legislature, and seek cooperation which will meet the interests of all of Hong Kong. They mostly advocate a moderate stance in relations with the Chinese Communists. In terms of their political philosophical ideology, a portion of them clearly leans toward social democracy (Western-European democratic socialism). Another portion has no clear ideological direction, but advocate the stand that one of the bases for socialist democracy is the interests of the lower classes. Generally speaking, these people could be called the "Moderate Democratic Faction."

On the other hand, although most of those who joined the United Democratic Alliance support the interests of the lower class, a minority support the interests of the upper class, and quite a few indulge in the fantasy of "class straddling," but there are also others who support a more active class struggle. Thus as far as class interest is concerned, there is a large mix of different views in the group. Many of them favor a more confrontational approach to relations with the Chinese Communists. As for their political philosophical ideology, there is a mixture those inclined towards social democracy and those inclined towards capitalist liberalism, as well as some "electionists" whose ideology is unclear. In general, this group could be called the "Radical Democratic Faction" or the "Resist the Communists Democratic Faction."

#### Can the "Moderate Democratic Faction" Form a Political Party?

Looking at the democratic factions as a whole, the largest and strongest group is the "Radical Democratic Faction" or "Resist the Communists Democratic Faction," which has been in the mainstream in recent years. But the small "Moderate Democratic Faction," which in the past few years has been out of the mainstream, has clearly developed and grown slightly. Its strength is currently insufficient, and in order to become a party in the future, they need to expand their organization. This will include cooperating with "centrists" who work for the interests of the lower classes, and absorbing people from the United Democratic Alliance who turn away from it when they encounter developmental problems or internal contradictions in the organization.

#### Sino-British Dispute Over 'Right of Abode'

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[Article by Lu Fan-chi (7627 0416 0037): "Comments on the Sino-British Dispute Over the British Right of Abode"]

[TEXT] Although relations between China and Great Britain have been on the whole quite tense following the

4 June incident, in the last few months the tension has relaxed considerably. Yet it is possible that the questions of the British "right of abode" and the proposed "human rights law" will give rise to renewed tension, and recently, around the time the British Parliament was discussing a proposed British "right of abode" law for Hong Kong people, we could again hear the "booming of the guns."

As far as I can tell, only a small minority of Hong Kong people are seriously concerned with the British "right of abode" question, and these are probably made up of middle and upper-class persons. Middle and upper-level public servants in particular have a high degree of concern about this question. At present, the British "right of abode" question is casting a clearly harmful shadow over the already poor relations between China and Great Britain, and tension in Sino-British relations is certainly not in the interests of Hong Kong.

Below I have some views on several aspects of the so-called British "right of abode" question, which is now giving rise to Sino-British bickering.

#### Differences Between the Chinese and British Positions

First, the fierce reaction on the Chinese side to the British "right of abode" question is no doubt due to the content of the proposed law itself, which bestows official British citizenship on 50,000 Hong Kong households. The Chinese consider Britain to be unilaterally changing the citizenship of a portion of Hong Kong people, and believe it could become a detrimental factor in developing Hong Kong's return to China in 1997. In addition, they feel that the British side is violating the spirit of Sino-British cooperation by doing things in this manner. Hence China's strong opposition to the British "right of abode" is due both to the actual contents of the law adopted by the British Parliament, and to what the Chinese consider to be a lack of cooperative spirit on the part of the British in handling this matter and making practical arrangements for the "1997 transition."

Second, Britain is not considering the strong reaction on the Chinese side, but wishes to adhere to the "right of abode" plan. Britain's first consideration is certainly its own interests. These include effective stabilization of the transition period prior to 1997, during which Hong Kong remains under British control. (A considerable portion of the 50,000 households covered by the British "right of abode" plan are public servants, and the plan is useful in reassuring middle and upper-level public servants to continue serving a Hong Kong under British rule in the period before 1997.) The vain mentality of Britain's so-called "honorable withdrawal" (those who obtain the "right of abode" will still look to Britain after the British Empire withdraws from the colony) serves as a so-called "justification" in terms of "democracy and freedom." There will be limitations on the numbers of relatively prosperous middle-class persons who can emigrate to Britain, which is a good thing for Britain.

#### Looking at Things from the Viewpoint of "Favorable Stability"

If one says that at present the most important targets of the British "right of abode" plan are middle and upper-level public servants, namely one of the important segments of those working within government administration, then the objective results of implementing the British "right of abode" plan will be as follows: A) Prior to 1997, a considerable portion of people within the middle and upper levels of Hong Kong's government administration will be preparing to emigrate due to the fact that they possess the British "right of abode." They may be able to continue working smoothly in Hong Kong because they will not have to seek a way to escape via emigration. At the same time, some persons who are able to emigrate do not prefer Britain, but rather favor the United States or Canada. For these persons, the fact that an "emigration inspection" would not be required for Britain due to the "right of abode," but it would be required for the United States and Canada, could cause some to change their minds and choose the British "right of abode," while continuing to remain and work in Hong Kong, profiting by a comparatively high income (those who emigrate abroad will find it difficult to earn the income they had when they served as middle and upper-level public servants in Hong Kong). While certainly some public servants will emigrate, the number should be reduced somewhat, even to levels lower than before 1979, and this could stabilize the functioning of Hong Kong's British-controlled government administration, and benefit a number of stabilizing factors of the "1997 transition." This situation is one that Britain (including the Hong Kong-British government) is also now placing great stress on.

#### Looking at Things from the Viewpoint of "Harming Stability"

B) However, these stabilizing effects also could, in 1997 or in the comparatively short period preceding or following 1997, "suddenly" be lost to a great degree, creating serious problems and even a crisis for the government administrative functions of the special administrative region (SAR) when Hong Kong returns to China. Because it is possible to believe that some portion of those who qualify for the British "right of abode" will inevitably choose to leave, no matter what Hong Kong's actual situation is in 1997. If they didn't have the "right of abode," in the seven years leading up to 1997 they could leave one by one, and it would still be comparatively easy for others to take over their work. But those with the British "right of abode" could possibly leave simultaneously, more or less in the same period around 1997, and finding others to replace them will be more difficult. Looking at the situation this way, the "right of abode" could be detrimental to the stabilizing factors of Hong Kong's "1997 transition" or it would only be benefit Hong Kong's stability in the period of British rule, and when Hong Kong returns to China it could immediately be detrimental to stability.

c) In the period of British rule, only a minority within the public service ranks are allowed the British "right of abode"; according to the distribution method, the majority of public servants do not qualify, particularly those in a "marginal" situation. This is divisive and unsettling; it weakens the work of these officials, and could bring out contradictory disputes, and thus is also a detrimental factor for the "1997 transition."

#### **This Cannot Lead to "British People Governing Hong Kong"**

Third, China's dissatisfaction with the contents of the British "right of abode" plan also has a certain objective basis, as the differences between the Chinese and British sides on this question are basically because each side began by occupying positions based on completely different standpoints. The Chinese and British sides have been unable to fully explore and cooperate on questions of Hong Kong, and this has only been detrimental to both sides. Yet the Chinese criticism that the British "right of abode" plan will change "Hong Kong people governing Hong Kong" to "British people governing Hong Kong," clearly goes too far. The Basic Law clearly stipulates that those holding foreign citizenship may not take official, high-level government posts in the Hong Kong SAR, and also says that those holding "right of abode" (British citizenship) will not be able to hold high positions in the Hong Kong government after 1997. Hence, the goal of "Hong Kong people governing Hong Kong" cannot change into "British people governing Hong Kong!" Although the situation where a considerable number of middle and high-level administrative public servants hold British citizenship is not good, it cannot be said that "British people will govern Hong Kong."

One of the major problems presently facing Hong Kong is the need for a real cooperative attitude to emerge from discussions between China and Britain.

#### **Formation of 'United Democrat Alliance'**

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[Transcript of panel discussion entitled: "Discussion of the New Development of Political Party Politics"]

[Text] Hong Kong Broadcasting Company's "A Look at the 1990's" Forum. Speakers: Mr. Yang Sen [2799 2773] (Deputy chairman of the Hong Kong United Democratic Alliance), Mr. Ch'eng Chieh-nan [4453 0094 0589] (Executive Committee of the Association for Promoting Hong Kong), Mr. Li Ming-k'un [2621 2494 0981] (Chief Lecturer in the Applied Social Sciences Department of the Engineering Institute). Presided over by Dai Chien-wen [2071 0256 2429], directed by Luo Yu-ying [5012 3768 5391], written by Huang Wan-yi [7806 1238 0308]

#### **Influences On the Establishment of the Hong Kong United Democratic Alliance**

[Yang Sen] The reason for the establishment of the Hong Kong United Democratic Alliance was that all along we have hoped that Hong Kong could have a democracy where Hong Kong People govern Hong Kong. If we are to realize this goal we certainly must build up strength and earnestly practice what we advocate, so that a democratic style wherein Hong Kong people govern Hong Kong can be fully implemented. Also, in recent years many middle-class people have left Hong Kong, and we have been worried about this brain drain and its affect on Hong Kong. We felt we should do our best to deal with this matter for the sake of Hong Kong and hence we have formed this organization. We are a political organization that is much on the scale of a political party.

[Ch'eng Chieh-nan] In deciding whether or not the Association for Promoting Hong Kong participates in political party activities or unites with other organizations, the views of the organizers had to be considered. It would be very difficult for this association to become a political party within a short period of time. As for views on the establishment of the Hong Kong United Democratic Alliance, when there is a general election, there will be an unavoidable coming together of forces from the whole of society.

[Li Ming-k'un] From top to bottom Hong Kong must prepare for a step-by-step transition to a situation where Hong Kong people govern Hong Kong, and we must resolve the current state of disunity as quickly as possible. At present Hong Kong politics faces three difficult problems. First, will the various forces come together and seek political cooperation? Second, how can politically capable persons be developed and how can political leaders be produced? Third, how can a common understanding of policies be formed among the various political forces? The emergence of the United Democratic Alliance is indeed an excellent development, because the alliance will basically work hard to resolve these three problems. Yet I also want to emphasize that establishing some organizations which resemble political parties is only one method of solving these problems. In other words, political parties are not the only way to help us combine political forces. In reality, Hong Kong also has a comparatively broad political space, which allows very small organizations to form alliances.

#### **A Common Understanding of Political Parties and Policies**

[Li Ming-k'un] So that each political party has a common understanding of aspects of political policies, I think there needs to be a feasible mechanism whereby a system of political discussion meetings is organized. This would allow all organizations inclined to contribute to Hong Kong's politics the opportunity for heart-to-heart discussions centered on linking up public policy questions on Hong Kong society. It would also allow them to come up

with policy views acceptable to all, accumulating them point by point, with the final goal of forming a common policy program.

[Yang Sen] Public policy research is not in fact purely academic research, but can be valuable in choosing a direction, and this is a reason for the formation and emergence of different political parties. Li Ming-k'un has talked about each political party concentrating on forming a common understanding of public policies, and I think this is only one consenting type of view. It is possible that some people will emerge who value choosing a direction; they will be able to use certain policies, but will not embrace opposing ones. On the whole, with the emergence of a more developed society and different ideas, the best situation is where each idea has its own organization and there is mutual influence, mutual balance, and fair competition among organizations. This is a good development. Hong Kong has the basis for a society governed by law, in which everyone voices their opinions and utilizes their capabilities, allowing city residents to have a choice.

[Ch'eng Chieh-nan] The common understanding of policy discussed by Li Ming-k'un is perhaps a more distant matter. It is necessary to take the first step now, which is that representatives of various interests or different political opinions first concentrate their own forces, express their own views, and be able to express differences over public policy, so that finally a level of common understanding can be reached. But the present problem is that a legislative body formed by a general election will not emerge until 1991. In talking about the present stage, it is necessary for all forces to come together, and then express their opinions in a legislative body.

#### Are Political Parties the Only Way to Have Elections?

[Yang Sen] I think that the establishment of the Hong Kong United Democratic Alliance is a hopeful factor in being able to implement a democratic system in which Hong Kong people govern Hong Kong. In the future Hong Kong must unite the different forces, [but] the United Democratic Alliance, after passing a resolution, has only taken the first step towards establishment, that is all. I very much hope that people concerned with Hong Kong's future, even if they have different political views, will realize that this is not important; a democratic society is a pluralistic one, and will be as long as they earnestly practice what they advocate, compete with each other, and allow residents to make their choice.

[Li Ming-k'un] People are worried that, although the 1991 direct elections will soon be upon us, the number of people who will in fact come forward and participate in the election could be quite low. However, at present there seems to be a rush to form a party to participate in politics. I feel that organizing a party may be popular, but will participation in politics really be popular? Even if organizing parties is popular, frequent public appearances by some political veterans will make people feel

anxious about the political arena. Unable to get away from this gang of old hands, however, they will now get together and form an organization.

[Ch'eng Chieh-nan] Whether this trend towards organizing parties for participation in politics is truly political party politics is a question of whether or not there will be official party politics, and this requires the test of time and practice. At present a dynamic realignment of the forces of the figures on the political stage is unavoidable, but precisely explaining the present coming-together of forces and clearly stressing the 1991 direct elections could be said to be short-term goals. As far as the long term is concerned, whether or not there will be official political party politics will not be known until after the 1991 elections. I think that the present parties are to a great degree elected and integrated entities.

[Yang Sen] I don't agree with this interpretation. The establishment of the United Democratic Alliance was by no means done for the 1991 direct elections. Actually, in the short-term view of the present political space and the development of China, there are still many uncertainties about everyone throwing themselves into politics. It is not very appropriate for an organization to be set up on such a scale only in order to vie for a few seats in the legislative assembly. In the process of organizing, it is possible to consider the coming of the 1991 elections, but the United Democratic Alliance was by no means established nor did it emerge as a result of the direct elections in 1991.

#### Maneuvering Room for Small Organizations

[Ch'eng Chieh-nan] On the question of establishing political parties, participation in elections should not be the only driving force. The establishment of political parties is something that requires time, and at present many organizations are only coming together for the 1991 general elections, and many public policies must be considered. The Association for the Promotion of Hong Kong does not have a strong desire to be in power as it is presently concentrating more on policy consideration and research. Small organizations do have some room to maneuver, and relations between various organizations also allow for some space. In fact, there are no great differences in the political platforms of the various organizations, which illustrates the fact that as yet there are no black-and-white differences in viewpoints of the organizations. All have space to link up or compete on various questions.

[Li Ming-k'un] Suppose that in confronting the political situation, we had a situation in which the United Democratic Alliance and all the other organizations formed an alliance to compete together. The other small organizations would still have room to maneuver. If the United Democratic Alliance and business circles formed two big camps, the maneuvering room among groups could become more restricted.

[Yang Sen] The directions chosen by different political views and different interests are not important. The

most important thing is to take time for political activity, and when participating in political activities and political work, have forces organize, and let the people of the city make their choice. In addition, room is not something given to one by others, but comes out of one's own struggle.

#### The Limits of Political Development

[Ch'eng Chieh-nan] Hong Kong is not set up as a country. If it were, then there would be a model for political parties. At one point there was a discussion as to whether or not a clear statement on the emergence of political parties should be written into the Basic Law, but the final decision was not to include such a provision. I don't think a political party model can emerge before 1997.

[Yang Sen] In fact there are substantial limitations on the room for political parties to develop in Hong Kong. This is mainly due to the Basic Law: development of the political system is already limited, and after the transition period it will not yet be possible for a legislative body to be established from a fully democratic general election. Although these limitations exist, we must not hang back, failing to go forward.

[Li Ming-k'un] The development of political parties requires the acceptance of real political norms, and Hong Kong's groups must deal with limitations on activity in Hong Kong, and must not try to get involved in work at a national level. This is playing by the rules.

#### Firm Increases Investment on Mainland

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[Text] Beijing, June 5 (XINHUA)—Conic Group, a Hong Kong industrial firm, plans to increase its investment on the mainland by updating existing plants and relocating manufacturing facilities.

Ji Jianghui, chairman of Conic Group, in an interview here today, said his firm has already established five joint ventures on the mainland and 15 processing plants in Guangdong Province neighboring Hong Kong.

Three other Conic projects are under construction now on the mainland, Ji added.

To lower production costs, the group has shifted some of its Hong Kong manufacturing lines and transferred technology to existing enterprises in Huizhou in Guangdong with the goal of making the city a production center for the group.

Conic Investment Co. Ltd, one of the biggest industrial groups in Hong Kong, concentrates on manufacturing and trade.

The group's 17 wholly owned subsidiaries in Hong Kong manufacture electronic products and communication equipment for markets in Europe and North America.